



## There are many 'I's in team

Core competencies of a treasurer are a given, but for those working in this area who are anticipating promotion, they also need to have a wide variety of business experience and expertise in 'soft skills'. We look at building a solid team, relationships and how to manage people and expectations.



### The Corporate View

**Guillermo Gualino**

Vice President and Treasurer  
**Agilent Technologies**

### Investing

The new MMF landscape

### Regional Treasury

Treasury in Africa

### Brexit

The result of the UK's EU referendum will have profound implications for Europe's corporate treasurers. In this article we consider what a post-Brexit world might look like.



### Technology

How safe is your financial data?

### Back to Basics

Cross-currency liquidity management



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# Voice of Corporate Treasury Global Study

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Our Corporate Treasury Benchmarking Studies have been leading the industry since 2009 – thanks to the 3,500 of you who have taken part, we have built up a very clear picture of the key issues and challenges affecting corporate treasury and, importantly, provided some of the KPI metrics against which you have been able to benchmark yourselves.

We have developed and improved our research with a new, exclusive 'Voice of Corporate Treasury Study' for 2016.

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The primary focus of the study will be to identify the hot issues, key trends, strategies and future solutions you require across the cash, liquidity, working capital management, trade, payments, collections, foreign exchange, funding, investments and cards solutions.

We are conducting the study concurrently across four key regions so we are well-placed to highlight any major regional differences.

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Everything you need, including the online study form, can be found at:  
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Thank you for your continued support. Your participation will help us to serve you better.

## INSIGHT & ANALYSIS

11

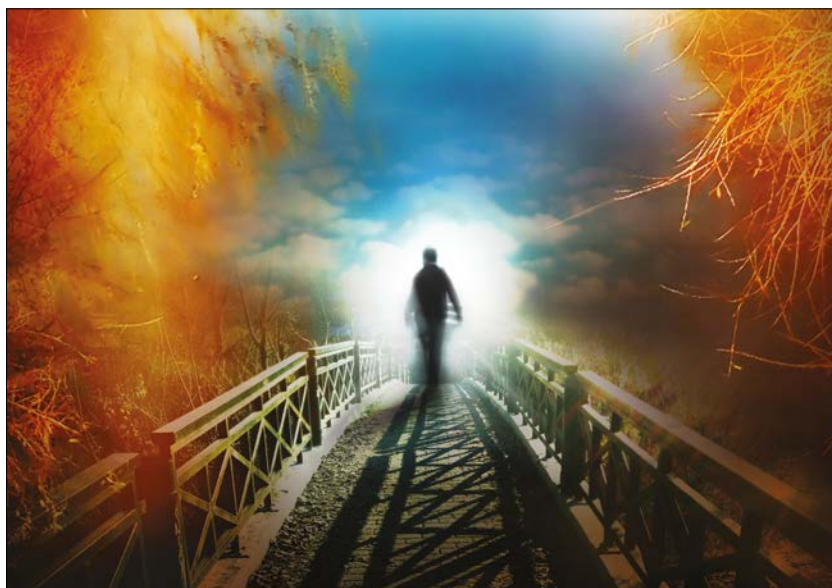


### There are many 'I's in team

Teamwork is not about one solid mass moving in the same direction but about many individuals coming together and sharing their different viewpoints and experiences to make a whole that has a common purpose. We investigate why this is not as easy as it sounds.

## WHAT IF...

14



### Brexit becomes a reality

The question of the UK's relationship with Europe will soon be settled by referendum. With the 'stay' and 'leave' campaigns in full swing we consider the implications of a Brexit from a treasury perspective.

## INVESTING

18



### Trying something new

The money market fund industry is changing. With some new SEC rules coming into effect this year, we look at what the changing regulatory landscape will mean for corporate investors in prime money market funds. How well do you understand the implications for your investments?

## SMARTER TREASURY

24

### Embracing the unpredictable: a practical approach to managing treasury in volatile markets

The emerging markets are fraught with risk for treasurers but they also present significant opportunities for those that are prepared to put the work in. How can corporates prepare for the worst whilst expecting the best?





**REGIONAL TREASURY** 26

**Sub-Saharan Africa: diamond in the rough**

Whilst the rapid growth in Sub-Saharan Africa has been one of the global economy's success stories over recent years, myths of doing business tend to prevail. But we explore how times are changing as corporates begin to adapt to local market realities and reap the rewards.



**TECHNOLOGY** 30

**How safe is your financial data?**

Companies of all shapes and sizes have woken up to the risks posed by cybercriminals. Yet it is an ever evolving space, meaning that corporates need to remain vigilant and abreast of the trends. In this article, we outline the various methods being used by cybercriminals and what corporate treasurers can do to help mitigate cyber-risk.



**TREASURY ESSENTIALS**

Treasury Insights 4

Question Answered 7

Market View 9



**21 The Corporate View**

**Guillermo Gualino**  
Vice President and Treasurer



Being given the responsibility of running a treasury department after just a few months working in the profession is a daunting task. Yet, for Guillermo Gualino, Vice President and Treasurer at Agilent, this was simply another opportunity to challenge himself and put his skills to the test. Here, Gualino outlines how his philosophy, rooted in the art of consulting, has brought success and meant that he has never been afraid to take on a challenge.

**BACK TO BASICS** 33

**Plunging into the cash pool**

In the absence of a single global currency, treasurers have to optimise their liquidity structures whilst retaining visibility and control at all times. Is the cash pool concept really the best solution in a volatile economic environment?





These pages contain edited versions of a few of the Treasury Insight pieces written in the last month. The full versions are posted on [treasurytoday.com](http://treasurytoday.com) as they are ready. The Treasury Insights weekly email summarises the new pieces from that week plus other news relevant to treasury. You can register for this free service at [treasurytoday.com](http://treasurytoday.com)

## How Etihad Airways selected its transactional banking partners

Corporate treasuries do not tend to change banks very often. The Etihad Airways treasury team, who recently announced the signing of new deals with Citi and the National Bank of Abu Dhabi, are no exception. “This is the first time Etihad has done something of this scale,” Adam Boukadida, Deputy Treasurer at Etihad Airways recently told Treasury Today.

Etihad’s selection of a new transactional banking partner, part of a treasury transformation project, was therefore conducted with a very high level of care and diligence. “As we do with any large mandate or transaction, we ran a formal RFP process which was very transparent, open and interactive, and completely fair,” Boukadida explains.

### The right expertise

The approach that was decided was to agree a new mandate with Citi to become its international transactional banking partner outside of the Middle East. This was shortly followed by a second deal with the National Bank of Abu Dhabi for the airline’s Middle East business. Boukadida says that there were several factors that influenced the final decision.

Firstly, treasury were impressed by the products and services being offered by both the banks, especially around working capital and interest optimisation. Importantly, however, the banks were also able to demonstrate, through their client portfolios, that they understand companies like Etihad and have the right airline sector expertise – as well as solutions – to meet their particular needs. “In addition to the product and service, both of our partners have a wealth of experience in the sector,” Boukadida says. “This was why, in the end, we decided to go with two banks globally, rather than regional partners.”

“We considered a total of 14 banks for this project, including Abu Dhabi and GCC-based institutions as well as the international institutions you would expect to see. And after a series of discussions, workshops and the team carrying out various types of analysis, we decided on the approach we would take.”

Adam Boukadida, Deputy Treasurer, Etihad Airways

The other area treasury were looking very closely at was technology. At the same time as selecting new transactional banking partners, enterprise resource planning solutions were also being overhauled across the group, while treasury itself were working on enabling SWIFT connectivity and bringing in a new centralised treasury and risk management platform to support the group’s activities.

In the context of such an overhaul, it made sense for treasury to go with what it was already familiar with. Since Etihad had an existing relationship with Citi in some countries (India, Jordan and Nigeria among others) and for several specific services, introducing the bank’s technology promised to be much more straightforward. “There was no need for us to familiarise ourselves with their platforms, technology and ways of working,” says Boukadida.

Citi’s cross-border capabilities were another big incentive to take global what they were already doing with the bank in several countries. Like many airlines, Etihad Airways manages group liquidity centrally out of their head office in Abu Dhabi. A key requirement was therefore for a global solution to bring liquidity back to head office. “The repatriation process for excess funds across our global network is a key factor to how we manage cash and liquidity.”

### Meeting in the middle

That Etihad’s existing relationship with both banks stretches beyond the sphere of transactional banking, was also considered during the selection process. At a time when regulation means banks are having to be much more selective about where they extend their balance sheet, this becomes a very important consideration.

“We have close relationships across a wide range of products and services with both banks, not just the transactional bank,” says Boukadida. “We spend a significant amount of time with our banking partners. As an airline our requirements are covered by all of the different areas across the bank from asset and structured financing to foreign exchange and commodity risk management, and of course trade finance and transaction banking capabilities.”

As Boukadida’s comments reveal, selecting a new banking partner is not only a once-in-a-decade decision. It is also a once-in-a-decade opportunity; a chance to put in place the right technology, processes and relationships to support treasury as the department in turn supports the growth of the business in the years ahead. And with this deal with Citi and the National Bank of Abu Dhabi, Etihad’s treasury team are confident they have achieved exactly that.





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## How to keep employees happy

The most important company resource really is its people. Although this statement has become something of a cliché, take the knowledge, connections and experience of its staff away and for most businesses it would be like starting all over again. And losing a key professional from a small team such as treasury can be even more damaging which is why recruitment is such an expensive process. And yet some skilled practitioners still complain of a lack of understanding, poor support, limited resources and unrealistic expectations imposed by management.

When trying to understand why their best employees would even consider leaving the company, it should be recognised that often people don't leave jobs, they leave managers. A Gallup poll recently claimed that 75% of workers who voluntarily left their jobs did so because of their bosses and not the position itself.

The need to secure the right impetus for professional staff is nothing new. Whilst money goes part of the way, Treasury Today reported back in 2011 that the key motivators are more likely to be personal development, longer-term security and, at the more senior end, work-life balance. Finding the right fit in terms of geography and working hours has become much more important and pressurising staff is likely to end in tears.

### An easy solution

As such, Dr Travis Bradberry, President at training and coaching services provider, TalentSmart and co-author of the work performance guide, 'Emotional Intelligence 2.0', believes that the solution is relatively simple. In his LinkedIn pulse blog he argues that it involves spending time on people management, a role which although considered somewhat negatively as 'soft' is actually vital to the success of any team.

With a client list including many of the world's best known corporate names, Bradberry has studied the effects of low staff morale. He notes that the more demanding your job is and the less control you have over what you do, the more likely you are to experience exhaustion, poor sleep, anxiety, and depression. Aside from potentially contravening the duty of care companies have to their employees, the result is often a lowering of productivity and an increase in staff turnover.

"All that's required is a new perspective and some extra effort on the manager's part to give employees autonomy and make their work feel less demanding," he suggests. The key to this change lies in understanding what may be lowering staff morale. The following practices are noted by Bradberry as the worst offenders. These must be stopped if the company is to retain good employees:

- **Overworking people.** It may be tempting to work the best people hard but managers frequently fall into this trap, making the individuals feel as if they're being punished for their great performance, Bradberry said. "Raises, promotions, and title-changes are all acceptable ways to increase workload. If managers simply increase workload because people are talented, without changing a thing, these employees will seek another job that gives them what they deserve."
- **Holding people back.** As an employee, the need is to bring value to your job and you do so with a unique set of skills and experience, noted Bradberry. It is, he added, the manager's job to keep finding areas in which their talented employees can improve, expanding their skills and furthering their careers.
- **Playing the blame game.** "A boss who is too proud to admit a mistake or who singles out individuals in front of the group creates a culture that is riddled with fear and anxiety," stated Bradberry. "It's impossible to bring your best to your work when you're walking on eggshells."
- **Frequent threats of firing.** Some managers use threats of termination to keep employees in line and to scare them into performing better. "This is a lazy and short-sighted way of motivating people."
- **Not letting people pursue their passions.** Talented employees are almost without exception passionate about what they do. Providing opportunities for them to pursue their passions improves their productivity and job satisfaction, but many managers want people to work within a little box, noted Bradberry.
- **Withholding praise.** "It's easy to underestimate the power of a pat on the back, especially with top performers who are intrinsically motivated," explained Bradberry. "Everyone likes kudos, none more so than those who work hard and give their all."
- **Don't lose the talent.** "If managers want their best people to stay, they need to think carefully about how they treat them," noted Bradberry. "While good employees are as tough as nails, their talent gives them an abundance of options. Managers need to make people want to work for them."

Longer versions of these articles are available at [treasurytoday.com/treasury-insights](https://treasurytoday.com/treasury-insights)



# Blockchain technology

“ With recent announcements that several big banks are considering using blockchain technology, how does it work and how could it affect the financial industry? ”



**Vijay Michalik**  
Research Analyst  
Frost & Sullivan

Blockchains are a new solution to a fundamental question in the digital world: how do you establish trust between parties over the internet's untrusted network? More specifically, how do you get perfect, simultaneous, shared data between a number of different people, devices or businesses?

There are two stages of blockchains, and these impact the financial sector in two distinct ways. The first are cryptocurrencies and the second are blockchain applications. Cryptocurrencies are a new type of asset, currency and value exchange medium. They're a digital token – secured with cryptography – that can be exchanged in a borderless and completely peer-to-peer way, and managed without need for a bank.

Their relevance to banking institutions is straightforward – the value that goes through cryptocurrency markets could completely circumvent the traditional finance value chain. While their penetration isn't very high yet, some countries' central banks are even considering cryptocurrencies as a national standard. Removing banks from this trusted central position requires them to do some real soul-searching and reconsider their value proposition. The most innovative incumbent financial institutions will offer cryptocurrency-based services by absorbing or partnering with service providers like cryptocurrency exchanges, wallets and micropayment services, while responding to challenges of Know Your Customer regulations (KYC) in pseudonymous systems and Anti-Money Laundering (AML) data analysis on blockchains' new structure.

Blockchain applications are the second wave of blockchain technology, and are based on abstractions of the concept of a blockchain ledger. They address a number of historic challenges in finance. These abstractions are possible using smart contracts, a type of blockchain-enforced code, to define the terms and formats of transactions, and often use cryptocurrencies as the incentive or fuel for the application's infrastructure. The most basic component of almost every financial service is the transaction, whether it's of a valuable resource or purely data.

Blockchain applications can lend the power of the data structure's verifiable history to any number of back office systems and records. The opaque systems that govern

settlement and payments, and the challenges of reconciliation between multiple parties can be entirely replaced.

Broadly, the reasons these systems haven't been updated in the past is one of consensus. Connecting systems from many independent banks to each other scales terribly – each new entrant must connect to each of the myriad existing entrants. Blockchains' immutability allows the creation of a single shared ledger, for which each institution needs only make one connection to, a smart contract based core which sometimes replaces an old monolith like a traditional clearing house's systems. Some of the most powerful short-term conceptual proofs being developed are around settlement and clearing, with companies like t0 and SETL offering solutions that would offer uncompromising transparency to audit and regulation.

While there's still some standardisation yet to take place, institutions like R3's finance blockchain consortium have demonstrated banks' willingness to work together towards the common goal of benefiting from this disruptive technology. They have a significant stake in the Hyperledger blockchain protocol being developed by IBM, the Linux Foundation and Digital Asset Holdings amongst others. What's clear is that participation will be the surest route to setting the agenda and staying at the forefront of blockchain technology's impact.



**Charley Cooper**  
Managing Director  
R3

Distributed ledger technology – often referred to as 'blockchain' – has received unprecedented attention of late, with everyone from banks and fund managers to exchanges and clearing houses looking to explore how it could streamline processes, reduce costs and improve accuracy and security. In its simplest form, a shared ledger allows for the distribution, verification and record keeping of transaction information more effectively and quickly in a decentralised manner.

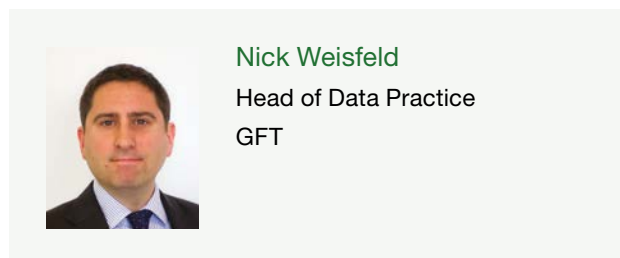
At first glance this might not sound like the most revolutionary of technological developments, but building on the broader concept of a distributed ledger and applying it to global financial markets could have a number of positive impacts on the efficiency, cost and risk issues currently associated with corporate treasury. One example is clearing and settlement of transactions – a topic of keen interest to regulators since the financial crisis.

The Bank of England is just one of a number of regulators around the world that has tasked banks to understand how technologies such as cryptography and distributed ledgers can improve the way financial markets operate. When you consider that some of the infrastructure currently used in many aspects of financial services is over 40 years old, it is not wildly revolutionary to consider the idea that they may no longer be appropriate for modern financial markets.

The potential uses of these technologies for corporate treasurers are vast and could transform how financial transactions are recorded, reconciled and reported – all with additional security, lower error rates and significant cost reductions. Treasurers could benefit from more effective management of cash flow and an immutable record of all financial transactions, allowing for improved risk management and liquidity planning.

R3 was early to recognise the promise of distributed ledger technologies and began working in earnest with financial institutions over a year ago to promote understanding of the opportunity presented by them. We believe that the collaborative model is the best way to quickly, efficiently and cost effectively deliver these new technologies to global financial markets, involving participants from across the industry.

Our consortium members understand that the most critical attribute of the successful adoption of distributed ledger-inspired technologies is a powerful network effect. The networks we ultimately develop will be appropriate to the group of counterparties they seek to connect. Corporate treasurers are an important part of that ecosystem, and our aim is to build solutions with applicability to their work as well as on a broader scale.



In the wider understanding, the truly transformational aspect of blockchain is the business process transformation (or disruption) it enables. Having all of the counterparties understanding all of the transactions within that value chain – that view being indisputable, immutable, distributed and trusted by all participants – is driving some truly disruptive thinking and potentially has consequences for a lot of the current manual processes that corporates have to deal with.

This increased transparency helps alleviate untrusted interaction between counterparties and for the treasurer, there is also the reduction in settlement risk of transactions.

At GFT, we look at tracing assets from asset production through to the delivery of that asset whether that be a financial asset such as a bond or a physical asset such as a commodity. Understanding where treasury's assets are located and who owns them will allow the department to operate in a more streamlined way. GFT produced a prototype which allows just this – to track commodities, and provide history of that ownership and location. Advantages could include: fraud avoidance, de-risking of warehouse receipt financing, a reduction in paperwork and increased visibility in the supply chain.

Following this prototype, a lot of our clients were coming to us with different use cases which they felt were relevant for development within a blockchain ecosystem. We feel that some of these would be better served by automation or transformation within a traditional technology such as a shared relational database. Therefore we enhanced Project Jupiter to include a set of quality metrics that allow our clients to identify the right use cases to develop within a blockchain ecosystem and then give them an advisory and technology execution platform for rapidly prototyping those.

GFT has a team of technology and business change experts that can assess the use cases and if they are relevant, send them through our prototyping process so they can quickly, in terms of time to market, see how that would transpose into a blockchain prototype. A 'blockchain incubator', if you like. It's quite early days but some of them are moving through at the moment – there are possibilities around Know Your Customer (KYC) processes and the bond issuance, for instance.

If you take a bond issued by a corporate, the transparency that is delivered by understanding the location of that bond and who owns it will help negate a lot of manual process that currently exists when paying coupons. If you move along the value chain to bond collateralisation ultimately having an indisputable, immutable, distributed and trusted view by all participants of bond location and ownership, will help improve the collateralisation process.

We feel at this stage that asset tracking, servicing and ownership is a good focus for blockchain use cases. We are also beginning to explore uses cases that include a cryptocurrency to transfer value within a private blockchain when the transfer of ownership takes place. Combining both asset tracking and a cryptocurrency for value transfer will ultimately deliver many of the visionary benefits that we believe blockchain has the capability to deliver. The important thing to remember is that although the technology is developing rapidly, it isn't in all instances fully fit for purpose for large corporates yet.

### The next question:

"What are the drivers of change in the payments landscape? There is a lot of talk about innovation, but what does it mean for corporate treasury?"

Please send your comments and responses to [qa@treasurytoday.com](mailto:qa@treasurytoday.com)



# Central banks will successfully chase higher inflation

*There is a state of imbalance in the current climate, and it cannot continue. At some point, keeping the economy afloat by allowing debts to soar (even) higher, meaning that negative interest rates are required to ensure borrowing continues, will not be possible. Here, we take a close look at the sheer complexity and, at times, idiocy of the present situation and why inflation is the preferred solution.*

The Federal Reserve (Fed) assumes that the neutral level of real interest rates is approximately 0%. This refers to real interest rates (so the difference between nominal interest rates and inflation) with an economy running at full capacity, which neither decelerate growth nor stimulate it. Assuming this is actually 0%, this means that if the US economy needs to be stimulated, real interest rates will have to go back to negative levels again.

## The reality

This is an important point because historically, the US economy has long been due another recession. Following the credit crunch, there has been an abnormally long period without a recession. Normally speaking, real interest rates are lowered by approximately four percentage points to come out of the recession.

With the current inflation, and assuming it declines in a recession, this would therefore mean that nominal interest rates will have to be lowered to approximately minus 4%. At a practical level, this is probably not possible. Fortunately, it is the case that the Fed has other instruments at its disposal as well – for example quantitative easing and forward guidance – but they have proven to be not too effective in recent years.

This problem will therefore only disappear if there is a degree of inflation again, at least 2%, but preferably more. Nominal interest rates may be lowered to 0% or slightly below this level in that case. This is feasible in practical terms at least.

So what Yellen meant to say is that the US cannot afford to take any risk with regard to inflation. It is not allowed to decline, but should actually increase. This is also why the Fed must not initiate a rate hike too soon.

## A global view

We would immediately like to view this in a broader perspective. The global economy is being plagued by excessive indebtedness, which is increasingly pushing down

economic growth, as a result of which supply is offset by too little demand. In turn, this means the economy has a tendency towards deflation. However, the combination of deflation and excessive indebtedness is disastrous for an economy.

Indeed, in the event of deflation nominal income declines, while interest and repayment obligations usually remain more or less the same. This means that less will remain for expenditure, causing deflationary forces to increase and so on. Deflation will therefore need to be avoided at all costs.

However, this will only be possible by boosting demand, but this will require even more debts. However, if indebtedness is already very extensive, more will only be borrowed if interest rates for this are very attractive. In other words: in the event of excessively negative real interest rates.

This brings us to the idiocy of the present time. In practice this means that in many countries, negative interest rates will need to be used. Under the current circumstances, this is the only way to push down real interest rates to a level that is low enough to keep credit provision at constant levels. However, it is actually sheer nonsense that if someone wants to borrow money, additional money is received for this. There is no logic that can justify this.

However, this is actually indicative of the extent to which our system is in imbalance. It may therefore be predicted with 100% certainty that this cannot be sustained.

Indeed, what is actually at issue in practice is that the economy can only be kept afloat by allowing debts to soar even higher. This, in turn, means that increasingly negative interest rates will be required to ensure that borrowing continues. At some point, this will no longer be possible.

## A way out of imbalance?

There is only one way out of this situation, namely higher inflation. Not only can old debts be repaid in this case with

money that has decreased in value, but it will also be practically possible to significantly lower real interest rates (should this be required). In addition, the greater the indebtedness, the more real interest rates will need to be reduced in order to prevent a collapse in the event of a recession.

This means that, even if quantitative easing and forward guidance are used, an inflation level of approximately 3% at least will be required to accumulate a sufficient buffer. This may even have to be higher because inflation will actually come down again significantly in the event of a recession.

Taking the above into account, it subsequently raises the question of how the various central banks will act in the coming period. We believe they will proceed as follows. If we look at the Fed first, then it has little to fear as far as the US economy is concerned. Against this background, we anticipate the Fed will prefer to postpone a further rate hike until there is a distinct onset of wage increases. However, this also entails a significant risk if this causes inflation expectations to rise too rapidly.

What also plays a part is that we anticipate many of the factors that are currently slowing down the economy and pushing down inflation will gradually diminish in force. Real interest rates will then need to be raised significantly to keep inflation expectations in check again. Share prices will then decline in no time and credit spreads and the dollar exchange rate will then increase so much that this actually provokes a recession. The challenge for the Fed is therefore to let inflation (expectations) rise slowly by increasing interest rates at a very measured pace.

## European perspective

In contrast to the US, shortages on the labour market in Europe have not yet reached levels at which there can be an onset of wage increases. As long as this does not happen, it will be almost impossible to boost inflation. The major drawback in Europe is also that its credit provision is impeded too much by the fact the banks usually have too little capital at their disposal. This means they cannot supply many additional loans, even though the central bank creates all manner of conditions that make this attractive for them with a view to profit.

The fact remains that European growth prospects are slowly improving. This year, a growth of approximately 1.5% is forecast and next year a growth of approximately 1.7%. Given the very low productivity increase, this will be just about enough to allow unemployment to slowly decrease further. However, it may easily take two years before this will actually lead to additional wage increases and more upward pressure on inflation.

## Looking ahead

The conclusion is that the European Central Bank (ECB) is likely to continue to stimulate the economy monetarily as far as possible for a long period of time, in order to push down unemployment and drive up inflation. However, all this may well yield results at too slow a pace, as a result of which fiscal stimulus will ultimately be resorted to after all.

What also plays a part is that we anticipate many of the factors that are currently slowing down the economy and pushing down inflation will gradually diminish in force.

Germany will be strongly opposed to this, so that we also foresee a very difficult period for the Economic and Monetary Union (EMU) by 2017, certainly if the refugee crisis persists. This means that Europe will then remain very vulnerable to economic setbacks and/or will have to create inflation in a forced manner, by having rising public deficits directly funded by the central bank.

In other words, we think the two biggest central banks will continue to do everything to push up inflation. Although this causes downward pressure on long-term interest rates in the short term, at the end central banks will likely succeed and that means much higher long-term interest rates in the coming years than many analysts now think is possible.

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# There are many 'I's in team

*Team-playing is not for everyone but then if the nature of human expectation and motivation is really considered in depth, very few have the required skills to make it work en masse. For the rest of us, how can teamwork be improved, what happens when it goes wrong and how can we improve matters?*

The worn out old cliché that 'there is no I in team' ought to be retired disgracefully. Of course there are: in fact, 'team' is entirely made up of 'I's – that is why building a well-functioning team is challenging. The key to building a strong team is to recognise that different people will take a different approach to a role, even within the same function. This seems obvious, but recognising that getting the best out of people is not about trying to force a square peg into a round hole, instead it is about seeing that real progress and creativity is driven by managing different outlooks, cultures and opinions and then steering these outlooks in the same direction.

## Getting it right

Exemplifying this view is the digital development sector where companies can crash spectacularly but they can also succeed beyond most people's wildest dreams: Apple, Google, Amazon and Microsoft are amongst the world's mega-companies for good reason. They achieved great

things by purposefully encouraging and exploiting teamwork and peoples' differences to move far beyond the norm.

The principles that these firms – and many more like them – adopt are built upon a single, non-negotiable truth and Rikke Koblauch, a designer in the London studio of digital development firm, Ustwo, sums it all up when she says "good teams start with good people who trust each other to work toward a common purpose". The company, which amongst other things develops digital interfaces for high profile clients such as Jaguar cars, does not pay lip service to the development of team culture. It is, states Koblauch, "much more than a football table and a Friday beer". For her, and many others in this sector, "culture is a safe environment in which everyone can be themselves, ask questions, make mistakes and grow".

It might be argued that the worlds of the bright young things in digital development and the cautious old-school professionals of treasury are so far removed that this notion

falls flat on its face. But read the stories of the winners over the years of the Treasury Today Adam Smith Awards and it is clear that they didn't get where they are today by standing still – these are all fully engaged, creative and responsive teams who, without exception, cite the imagination and commitment, skills, talent, experience and cultural outlooks of their co-workers as being vital to their success.

"I've learnt throughout my career that if you get the right people with you, you can do almost anything. Get the wrong people and you can do nothing." The message from Gary Slawther, Financing Advisor to the CEO at Octal in Oman, could not be any clearer: it does not matter ultimately what the role of that team is, the need to properly consider the suitability of each individual member, as per Koblauch's assertion above, is indeed non-negotiable.

But team building is not an exact science and there is no magic formula that works every time. "The problem is that nobody teaches you how to identify what you need in human resources, how to manage staff that aren't performing – and how to manage those that are – and how to build good relationships with the banks," says Slawther. It is, he determines, "something that only comes with experience".

## Soft skills

Of course, the core competencies of a treasurer are a given, but for those working in this space who are anticipating promotion, they also need to have a wide variety of business experience and expertise in the so-called 'soft skills'. These include the ability to build relationships and to manage people and expectations. Building a team therefore means thinking carefully about what personal qualities each role needs to best fulfil it. Whilst it may be desirable to seek individuals who will question processes, display common sense and be able to "ruthlessly prioritise what needs to be done", Slawther feels that companies which overlook the value of soft skills do so at great cost.

But it is not just an individual manager's responsibility to create the right environment. Vivian Peng, Asia Treasurer and VP of Treasury, Flex Group, (and winner of the Adam Smith Awards Top Treasury Team Asia 2015) points to a further essential element of success. "We have strong support from our management and our culture allows the team to innovate in a complex environment," she reports. That same culture fosters "a great team spirit", informing her belief "their hard work, their ability to work as a team and also their willingness to learn" is the very key to success.

The point that Peng makes about being able to innovate in a complex environment is one that is taken up wholeheartedly by Christine McCarthy, Senior EVP and CFO, The Walt Disney Company. When it comes to working with her staff, McCarthy steers clear of micro-management. "I learnt a long time ago from one of my mentors in banking that when you find someone who has potential, you give them enough rope to hang themselves but hopefully they won't."

As part of her remit to develop talent, McCarthy believes it is essential to keep high-potential people motivated. To do that you have got to give them the ability to make decisions and earn acknowledgment for the work they do. "I want them to be out in front getting the recognition they deserve; the downside risk is that they must perform and succeed. It can be a high-risk strategy on my part so I can't give everyone the same amount of rope; I have to discern who is ready for those challenges."

She may be taking some "highly calculated" risks but her nurturing process is well managed as part of her belief in team spirit. "I don't just put them out to pasture, I keep my eye on them," she says. "The more they can do and the more they can achieve, the more they will grow as professionals."

## Keep talking

When it comes to developing skills and knowledge, it is important to keep in touch with the wider treasury peer group. Ingmar Bergmann, Corporate Treasurer and Head of Corporate Finance for Dutch real-estate firm, NSI, is a firm believer that the international community of treasurers can help each other to do a better job. "If you want to take treasury to a higher level then you definitely have to communicate and open up to others."

Certain aspects of the role are naturally bound by the rules of competition; he is not advocating passing on 'trade secrets'. But he argues that some facets of the job – such as the administration of a common project such as the recent SEPA demands – are not necessarily best served in the realm of secrecy. Here, treasurers can help each other by openly discussing project implementations, the pitfalls and the best expert contacts.

Uniting under a common cause creates a stronger voice too and for Bergmann "it's time to make sure within the inner circle of treasurers that we maintain the clarity of our voice so that people keep listening". The cornerstones of promoting the values (and value) of the treasury function are the Associations of Corporate Treasurers that exist in many countries. As a former chairman of the Dutch ACT and a member of the pan-European EACT, he notes that it is only a relatively recent experience for the voice of treasury to be heard with any real attentiveness in the discussions around setting international regulations. "Corporates, together with the EACT, have been able to raise their voices and show these bodies, especially the European Union, that they should listen to the 'voice of the real economy'," he states. "As treasurers we should be willing to help work towards well-balanced regulation." For him, mutual support is an essential part of teamwork.

## Why teams fail

The most effective teams combine significant diversity – of personality, background, outlook and skills – but with a shared set of values. This is important, notes Mark Loftus, a Chartered Clinical Psychologist, an Associate Fellow of the British Psychological Society and Managing Director of The Thinking Partnership. Just as shared values without diversity leads to stultifying group-think, so diversity without common values will lead to fragmentation.

Indeed, notes Loftus, teams often fail because they do not have a clear enough sense of the common purpose that defines their very existence. At a senior level, the reluctance or inability of people to ask each other questions is a major cause of frustration. Where an individual possesses a depth of technical expertise there is often an imbalance between the twin concepts of advocacy and enquiry (propounding your own views versus enquiring into someone else's). "The evidence seems to be that a 50/50 balance is indicative of good team functioning, whereas most frequently we would see a 90/10 split in favour of advocacy," he notes. This disparity tends to generate "furious agreement" amongst



experts, instead of intelligent questioning of what is really meant by the other proponents.

A major key to progress as a team is thus the free-flow of conversation. However, common amongst teams of senior executives, Loftus observes a 'hub and spoke' model in action where "a kind of uneasy truce" exists between participants. Each will accept direction from their own boss but can be reluctant to accept influence from each other across the team. The reason why some executives choose to isolate themselves in this way may simply be down to the performance management structure imposed upon them, where accountabilities are made very specific and personal. This builds incentives around those accountabilities, tending to drive individualistic behaviour. But, notes Loftus, the typical psychology of individuals who rise to senior positions must also be taken into account. "Often they have got there because they are strong solo operators; they are very competent and are not used to relying on someone else," he explains. Motivated by taking on major challenges, these are the people who always step up to the plate but then find it difficult to let the reins slip too far from their control.

Firmly believing that "teams become teams by working together on a common purpose", Loftus comments that it is nonetheless rare for corporates to focus on helping people learn the skills of being in a team. Help is out there but, at his own admission, the team-building industry has not always covered itself in glory, prone as it is to "psycho-babble and mumbo jumbo". Don't dismiss it all though, he advises. "People are right to be sceptical but at the same time do look for the small percentage that is useful."

Unfortunately, of the companies that are alert to the benefits of co-operative working, many are too keen to force team-play or decide merely to pay lip service to it. In trying to manipulate the right environment they see team-building exercises – often referred to as away-days – an 'event' in themselves. This, argues Loftus, frequently creates "toe-curling" bonding sessions that can ultimately create inattention to results as the realisation that the team exists to perform is lost amidst the thrill of connection. This, he hastens to add, has never been his experience when working with treasury teams.

## The team-builder

As a practitioner of many years' experience, James Koh, Group Treasurer of Vertu Corporation, has set up a number of global treasury teams from scratch giving him the opportunity to handpick and work with some of the best teams, having, as he says, "learned the hard way" as to what works and what doesn't.

The mark of a great team for him is one that is "tightly knit and which gels well together". By encouraging each member to be "competitive from start to finish, highly communicative and always striving to be the best in class", Koh says it is possible to create a highly motivated team. When that team has a clear set of treasury objectives and is led by a hands-on treasurer, he feels the function can be a well-respected and integral part of finance, "in-step with the CFO and the company objectives". Indeed, he adds, "the role performed by treasury is an integral part of the finance function; a good CFO knows that and relies upon the utmost professionalism from the treasury team".

Having been at the sharp end of treasury for a variety of businesses and sectors Koh has built up an impressive CV but has seen on his journey a number of instances where

teams have failed to perform. Lack of direction and no clear set of KPIs and no monitoring, mentoring nor specific training often play a role in the underperforming treasury. But Koh digs deeper, recognising the damage that can be inflicted by a treasurer lacking in motivation. This can be exacerbated where there is no close working relationship with CFO or little support from them, and communication within the team itself or between the treasurer and CFO fails.

When creating an effective team there are a number of elements that need to be taken into account to achieve best results says Koh and for him it all starts with a group of people who are "loud and communicative", even about the problems. "Shout so the whole team and the treasurer know what's going on," he advises. "It's all about communication. It's vital: no quiet team please!" Not being afraid to make "noise" is a good way of airing any mistakes at the earliest possible time "so they are easier to deal with". It is, after all, a team effort "and we stand or fall as one".

"The role performed by treasury is an integral part of the finance function; a good CFO knows that and relies upon the utmost professionalism from the treasury team."

James Koh, Group Treasurer, Vertu Corporation

Picking the "right crew for the right results" is his goal but he admits that setting up a treasury from scratch is not easy. "The best drivers and KPIs, the correct motivation and ongoing tracking, all require constant attention," he states. "All I might add without compromise and strictly as per group treasury policy as mandated by the board."

A great treasury team comes in all shapes and sizes, notes Koh. "The greater the diversity, the richer the team is. But it takes a good treasurer to recognise these talents, to grow and nurture them – not cushion them but to stretch them beyond their comfort zone but still within their capabilities." The methods he uses to spot and develop potential amongst staff include challenging KPIs and individual objectives. The team has to be motivated to achieve these hard but achievable goals and targets. "I personally take on board key members of my team for special hands-on mentoring," explains Koh. "It is always such a pleasure when they pass their letters, excel in their delivery and move on to greater and better things. I am glad I had the opportunity to be part of and help shape their greater career in treasury."

Of course, personnel issues can arise and as an experienced treasurer, Koh says he tends to be able to "pick the good ones from the bad" quickly. "It helps to have an instinct for spotting potential problems; it's part of my job and my employers expect no less," he says. When dealing with negativity in addition to ensuring a "tight and constant working relationship" with the CFO and the Board of Directors, Koh suggest "lots and lots of clear and precise communication" is required between the treasurer and treasury team. This must be backed up by setting clear and precise KPIs and objectives to ensure each member knows what is expected of them. "And if and when they achieve or exceed their KPIs, they then get rewarded," states Koh. "When the treasury team performs well, I also perform well. That is my motivation for wanting my team to succeed. Simple!"

WHAT IF...



# Life after Brexit

*With the UK referendum on EU membership fast approaching, we take a look at some of the challenges corporate treasurers might be grappling with should there be a vote to leave. Has your treasury team considered what life might be like after Brexit?*



Imagine, it is the morning of 24<sup>th</sup> June 2016 and, for the second time in just over a year, the polls have called it very wrong. Corporate treasurers around Europe are waking to the news that the UK has voted to leave the European Union (EU). Invoking the so-called 'exit clause' of the Lisbon Treaty a short while later, Prime Minister David Cameron meets with the European Commission (EC) to kick off a series of negotiations set to last for many years.

A lot of treasurers hearing the news that morning share something in common: they had not made contingency plans. Research such as Deloitte's quarterly CFO survey warned, months before the referendum, that most UK corporates had not planned for a Brexit. Only 26% of the CFOs polled by the audit firm a few months before said their company had made or was in the process of making contingency plans for a possible UK exit from the EU. At the Association of Corporate Treasurer's Cash Management Conference in February, treasurers spoke of how they had made efforts to raise the issue across their organisations – but had not gained much traction.

Treasurers outside the UK are even less likely to have planned for such an outcome. They will wish they had. If the UK was to leave the EU the whole of Europe would be effected and any company doing business in or with Europe will have to cope with the consequences.

Precisely what happens next is a matter of some conjecture, and one should be very cautious of precise numerical estimates of the economic impact of the UK deciding to leave the EU. What we can say with reasonable certainty, however, is that nearly every aspect of the treasurer's work will be impacted. In those first meetings after the referendum treasurers on both sides of the English Channel will be carefully considering the impact of Brexit on everything from the company's FX exposures to its banking relationships and long-term borrowing plans.

## Hedging Brexit

The most pressing concern for treasurers in the near term is likely to be foreign exchange volatility. Some have argued that any pressure on sterling following a vote to leave the EU will not last long. After all, exiting the EU, they say, should not drastically alter the UK's economic fundamentals over the long term.

But that may be wishful thinking. On the other hand, an exit from the EU would mean (at least) two years of political negotiation throughout which many aspects of the UK's economic, legal and regulatory relationship with its largest trading partner would be set to change. Corporates may decide to delay investment in the UK as a result. Then, as concerns grow around where the disruption will leave the UK's large current account deficit, investor flows could begin to dry up. Economists warn that, if this scenario were to play out, a precipitous decline in the currency would be on the cards.

"I'm most concerned about the investment channel," says James Knightly, Senior Economist, ING. "If you are a foreign business, given this two year period of extreme uncertainty, would you be putting money to work in the UK or would you be thinking about investing in continental Europe instead? If foreign direct investment (FDI) becomes less of a positive story, then that is really going to add to the concerns around the currency.

## Key Brexit questions treasurers should be asking

### Governance

- Will access to certain markets and products be altered post-referendum necessitating changes to treasury policies?

### Funding

- Will your current bank relationships remain appropriate? Are you a UK business that borrows from the European Investment Bank? Will debt pricing be impacted as a result of the referendum?

### Cash management

- Will cash management arrangements need to change? Will your shared service centres located in continental Europe still be optimal?
- Will your banks continue to meet your investment criteria?

### Risk management

- How will your organisation's risk profile alter?
- How will you address the increased volatility in financial markets?

### Working capital management

- Will the working capital cycle be extended?

Source: Association of Corporate Treasurers: briefing note – Brexit. March 2016

We think sterling could fall quite sharply – against the euro it could be back at the levels last seen during the financial crisis."

Oxford Economics also thinks the initial decline against the dollar could be quite significant. In a report published in March 2016, the research group presented the results of its modelling, according to which sterling will fall by 15% against the US dollar in the immediate aftermath of a vote to leave. By the time the negotiations conclude, the report forecasts the currency to recover and end 9% lower.

There is evidence that the referendum has been already weighing on the exchange rate, which since the beginning of the year is 6.4% lower on a trade weighted basis (a decline economists say cannot be explained simply by the recent fall in UK rate expectations). The cost of hedging business activities against further depreciation has also spiked to its highest level since 2010. The six-month implied volatility in sterling/dollar, a measure of expected moves in the exchange rate used to price options, rose to 12.2% in February 2016 – its highest level since late 2011, according to data from Reuters.

The pound is not the only currency likely to be impacted. As markets begin to digest the news that the UK is heading out of Europe, the euro is equally likely to come under pressure as fears mount about what other member states might be about to follow the UK out the door. Amid the mounting risk aversion in the markets, safe-haven currencies such as the Swiss franc and the Japanese yen could very well begin to appreciate against other currencies. For that reason, treasurers who failed to carefully consider the impact of a Brexit on their short-term hedging positions in the run-up to the referendum may find themselves in an unenviable position.



If you are a foreign business, given this two year period of uncertainty, would you be putting this money to work in the UK or would you be thinking about investing in continental Europe instead?

At the ACT's Cash Management Conference, it was this particular scenario that seemed to be the greatest concern for treasurers. Julie Fabris, Treasurer for Britax Childcare Group, a UK-based manufacturer of children's car seats, said this was one of the main areas she had been discussing with her team ahead of the referendum. "There is a lot of FX volatility out there and we have a lot of FX exposures," she explained. "So the first thing in my mind is how to manage that. I think that's only going to get worse, and you can already see it in the sterling/euro rates at the moment."

### Uncertainty costs money

Were the pound to become chronically weak, the Bank of England (BoE) might be encouraged to hike the UK benchmark borrowing rate to ward off inflation. But that is not the only reason why the pricing of credit could become a headache for UK corporate treasurers in a post-Brexit world.

First, there is a possibility that sterling debt is seen as riskier in the wake of a Brexit, prompting an increase in the price banks can borrow at relative to the BoE's policy rate. Such an increase would most probably be passed on to non-financial corporate borrowers through higher risk weightings and higher margins.

Second, intercompany financing and the ability to borrow on European debt capital markets would be unaffected. The EU's open investment approach is guaranteed by legislation that states all restrictions on the movement of capital between Member States and between Member States are prohibited. However, borrowing in foreign currency may be unattractive if sterling comes under pressure.

Thirdly, UK companies could face a credit downgrade. In a research note published in March, credit ratings agency Moody's said that Brexit would create heightened uncertainty that would be credit negative for non-financial corporate

issuers, a view shared by the other two major ratings agencies, Standard & Poor's and Fitch. Meanwhile, Moody's believes there will be little significant credit impact for EU-based issuers. It does note, however, that the uncertainty from Brexit would be felt across the EU, and especially in countries such as Ireland, the Netherlands, Germany and Belgium.

The pressure on ratings for UK issuers is not likely to be distributed evenly across the UK economy since the impact of a Brexit will not be the same for any two businesses. "It depends which sector you are thinking about," says Colin Ellis, Managing Director – Chief Credit Officer, EMEA at Moody's. "Each have their own issues in terms of possible regulatory change, the trade impact, investment impact and migration impact. For example, in the corporate world, the companies that might be most exposed in terms of the migration issue are food producers. Whereas if you are thinking about the trade question, then it is most probably manufacturers that are impacted."

The small ray of hope for the corporate treasurers at this point is that all the questions Brexit raises around future access to markets and movement of labour are resolved quickly. Dorothy Livingston, Consultant at Herbert Smith Freehills LLP who says she has been receiving more enquiries from corporate clients about Brexit in recent months, summarises the problem succinctly. It is uncertainty that is the real challenge. "This carries the risks that, as in other situations of uncertainty, money may cost more and it may become more difficult to borrow on good terms on a long-term basis".

This is before even getting to the more specific issue of what happens to the financing arrangements of companies currently benefiting from some form of EU subsidy or financing programme. "Businesses may, depending on the terms agreed if the UK leaves the EU, lose access to European Investment Bank (EIB) funding once we actually leave the EU," Livingston adds. "That would remove a source of funding that has been heavily used by our infrastructure companies – there is not any equivalent UK institution to replace that. According to its website, the EIB has lent some €29bn to the UK in the last five years, with over 75% of this total going to energy, transport, telecommunications and water/sewerage/urban development."

A strategic review of the composition of funding policies will therefore be essential for treasurers of UK companies in the event of a Brexit. And that is even before we take into account the impact of a Brexit on the principle source of funding for most European corporates: the banks.

### In The City

The City of London is blessed with many competitive advantages lacked by other European financial centres such as Frankfurt and Paris. Neither of these cities has the same depth of labour market in financial services that London enjoys; nor does either possess the same scale of support services – lawyers, accountants, and consultants. These advantages will not disappear overnight if the UK leaves the EU.

That means treasurers will probably be spared a costly wholesale disruption of their banking activities from foreign banks deciding, in a post-Brexit world, to move their European headquarters or close their London operations altogether.



That does not mean, however, that corporate banking relationships will be left entirely unaffected by the UK's changing relationship with Europe.

Once again, uncertainty is the problem. What will the loss of EU passporting rights from London mean for the treasurer's relationship banks' commitment to various lines of business? What will the UK leaving the EU mean for the UK's participation in the Single Euro Payments Area (SEPA)? Will companies still be able to collect euro payments from the UK post-Brexit and, if so, might these be subject to additional charges from the recipient banks?

The payments question is particularly significant because banks have been advising corporate clients that it is in their interests to open accounts in London. Since the volume of transactions flowing via London into Europe is so great, the banks have long argued that centralisation of this sort makes a lot of sense from an operational efficiency perspective.

Whether it would continue to make sense in a post-Brexit world is uncertain. Although the UK is not a member of the euro it is as a member of the EU, of course, included in the Single Euro Payments Area (SEPA). Inclusion in SEPA is not conditional on membership of the EU: non-EU states such as Switzerland, Norway and Monaco are, indeed, part of the scheme. But until the point at which the political leaders of the UK and the EU come together and iron out the details of the UK's new relationship with Europe, there would be some uncertainty around the UK's continuing participation in the scheme. A matter of this sort would, most probably, need to be addressed in a trade deal. In the absence of such a deal, some industry sources have even speculated payments sent from the UK to the EU might be subject to deductions from the beneficiary bank.

"The SEPA uncertainty is one of the ways this could impact clients," a source inside the transaction banking industry told Treasury Today. "It could be bad news for companies who have centralised accounts in London for the purpose of pooling liquidity. We have been receiving quite a lot of questions from corporates with liquidity pooling structures based in London."

Cash pooling is far from the only financial service that could face disruption were Brexit to lead some UK-headquartered banks into structural reviews of their businesses. The loss of passporting rights, which permit banks access to European Economic Area (EEA) markets from London, could push some banks to move selected areas of their business to an EU financial centre like Frankfurt or Paris. The statement from HSBC's CEO Stuart Gulliver earlier this year indicating that the lender plans to move 1,000 of its investment bankers to Paris if the UK withdraws from the EU could be taken as a sign of what is to come should the UK vote to leave.

Not every bank will be impacted in this way though; only those UK regulated entities, like HSBC, that use the UK to passport into Europe. A US headquartered bank with a footprint in Europe, for instance, could in addition to relying on the EU passport also have US branches operating in Europe that are negotiated locally in each particular country.

Treasurers will therefore need to understand what a Brexit means for their banking partners and that some banks will be more affected than others. Those with one of the large UK banks might find that, operating from the UK, the bank can no



As in other situations of uncertainty, money may cost more and it may become more difficult to borrow on good terms on a long-term basis.

longer offer services into the European market. The bank may need to move part of their business into Europe to keep servicing the markets locally.


The loss of passporting rights could be an equally significant issue for money market funds too. In the event of a Brexit, asset managers could find that their ability to sell funds across Europe from the UK is hampered. At the present time, the right to do this is guaranteed under the EU's Undertaking for Collective Investments in Transferrable Securities (UCITS) Directive. But there is a very real possibility that the EU will seek to change these arrangements if the UK leaves the EU. If that were to happen some funds would have to either withdraw from marketing on the continent or re-domicile their assets. This too could become an issue for treasurers of European companies using UK domiciled sterling MMFs post-Brexit.

## Exit emergency

Looking across the spectrum of treasury activities that could be affected by the UK exiting the EU – from banking and money funds to financing – there appears to be one major recurring theme: uncertainty. Perhaps this is the reason why so many corporate treasurers and CFOs have indicated that, as the referendum approaches, they have yet to make contingency plans.

Despite all the grave predictions made by commentators on both sides of the debate, the truth of the matter is that nothing actually fundamental changes on the morning of 24<sup>th</sup> June even if the UK votes in favour of leaving the EU. The much talked about two-year countdown clock that is Article 50 of the Lisbon Treaty will not even begin ticking until the UK Prime Minister David Cameron goes to the EC to convey his government's desire to exit. In the absence of any immediate impact, it is quite understandable that treasurers feel reluctant to begin planning for a new world that will only become clear as the post-Brexit negotiations progress.

Predictions of an economic meltdown – as some in the 'Remain Camp' have indulged in – may be overstating the ramifications of the vote somewhat. But the potential market volatility most economists expect to follow, together with all the political uncertainties, should be more than enough to give Europe's treasurers jitters as the big day approaches.



# VNAV: time to get acquainted

*The regulation of money market funds (MMFs) is already changing in the US, and Europe is not too far behind. But some corporate investors are not waiting until the new rules arrive before testing out new short-term investment products.*



“Never test the depth of the river with both feet,” the legendary real-estate investor Warren Buffett once cautioned. It is pertinent advice, perhaps, for those treasurers now acquainting themselves with new money fund products ahead of the coming regulatory shake-up.

One corporate cash investor that has been familiarising themselves with something new recently is the treasury department at UK postal company Royal Mail. Last year treasury tentatively began using funds with a floating (VNAV) rather than a fixed (CNAV) net asset value.

“I guess you could say we tip-toed into it,” says Auna Dunlevy, Head of Liquidity and Investments at Royal Mail. “We had a limit on how much we can do to begin with, and the first VNAV funds we looked at were the ones that were more similar to CNAV.”

Many of Dunlevy’s treasury peers, on both sides of the Atlantic, are also likely to be looking to acquaint themselves with the VNAV MMF product too in the coming months. The trouble is that ever since the term ‘shadow banking’ began to enter the vernacular of central bankers and other financial regulators, the CNAV MMF’s days have seemed to be numbered. Citing the need to prevent run-risk, regulators in both the US and Europe indicated, post-crisis, their support for a mandatory conversion of all funds to VNAV.

Now after years of consultation and argument and counterargument, the much debated reforms to the regulation of money market funds is beginning to take effect. In the US, new SEC rules mean that since April 2016 funds, are now required to disclose daily and weekly asset levels, market based net asset values (NAVs), net shareholder flows and the occurrence of sponsor support. More structural changes will come into effect later this year, including a requirement for all prime institutional funds to switch to VNAV. Similar regulation is expected to be introduced in Europe in the not too distant future.

For treasurers investing short-term liquidity in MMFs, the rules around disclosure of information US MMFs are now subject to are particularly significant, since they now have access to new data with which to assess the risk of their investments. But asset managers argue that the disclosures might also help treasurers decide where they will invest once institutional prime MMFs are mandated to convert to VNAV. Even those treasurers not actively experimenting with VNAV now have, with the additional data at their fingertips, a means to “test the depth of the river” without fully taking the plunge.

## Analysing VNAV

“It has been clear from our conversations with investors over recent weeks that they think the release of this information is going to help them decide what they will do in the future,” says Barry Harbison, North American Head of Liquidity Product, HSBC Global Asset Management. Being able to see “how much that NAV is likely to move” over the next six months, adds Harbison, should assure treasurers concerned about the volatility of the VNAV structures prime MMFs have to apply.

HSBC recently carried out its own study to better understand how the NAV of a MMF might behave over time. Analysing market data from January 2001 through to January 2016, the bank considered how the NAVs of four hypothetical MMF

portfolios with different strategies might move. What the bank found was that both the magnitude of movement in NAVs and the time taken to recover was closely linked to maturity of the portfolio. But even in funds with more aggressive risk parameters, there were only negligible declines in the NAVs of the four hypothetical portfolios.

“Our analysis shows that the NAV is not likely to move as much as some previously considered,” he says. “Even in that worst-case scenario, in which we considered taking the maximum duration permitted across the entire period we analysed, the average price fall was still around a basis point.”

## Moving to govies

So where does this leave the value proposition of prime institutional MMF products once the implementation of the new rules is completed in October? Will there still be the big exodus from prime MMFs into the government funds that can still apply CNAV?

Analysts at the ratings agency Moody’s have said previously it may not be a question of ‘if’ but ‘when’ such a shift in assets from prime funds to government takes place. They note that market pundits estimate that between \$400bn and \$800bn of the \$1.2trn in US prime fund assets could flow out before October 2016; a migration driven by both existing prime funds converting to government status and, additionally, investors switching to avoid the new rules. The latter, they add, could account for in excess of 25% of total institutional prime assets under management (AUM).

“Our Government funds today are yielding roughly 20 bps, while our prime funds offer around 40 bps. Right now investors are staying to capture those extra 20 bps, but expect some of them to move prior to conversion.”

David Fishman, Managing Director; Co-Head, Goldman Sachs Asset Management’s Global Liquidity Management Business

Goldman Sachs Asset Management say the flight from prime to government MMFs has already begun, albeit driven more so far from prime retail funds converting, like the Fidelity Cash Reserves Fund, than investors making the transition themselves.

“There will be a number of clients for whom the path of least resistance will be switching to government funds,” says David Fishman, Managing Director; Co-Head of Goldman Sachs Asset Management’s Global Liquidity Management Business.

Fishman adds that the yield differential between prime and government since the rate lift off could be the factor keeping some investors in prime funds, for now. “Our Government funds today are yielding roughly 20 bps, while our prime funds offer around 40 bps,” he says. “Right now investors are staying to capture those extra 20 bps, but expect some of them to move prior to conversion.”

But most asset managers in the US market believe that institutional prime MMFs will continue to be a valuable tool for

## European MMF regulation: the latest

While the US is already advancing with the implementation of its amendments to rule 2-a7, new MMF regulation is still some way from being settled on the other side of the Atlantic.

"There are quite a number of people involved in the EU legislative process" explains a top institutional global liquidity asset manager. "There are multiple legislative institutions that play a part in writing this legislation, whereas in the US, there is just one body that writes and enforces the rules. This can sometimes slow down the rule-making process in Europe."

As it stands, we await the input of the EU's Council of Ministers, having now heard proposals from both the European Commission and the European Parliament. Aspects of the latest version of the rules from the European Parliament, published in March 2015, were welcomed by the asset management industry. Like in the US, retail and government constant net asset value (CNAV) MMFs would continue to operate under the proposals. In addition, an entirely new category of fund would be established subject to a five year 'sunset clause': Low Volatility (LVNAV) MMFs that would be required to publish their mark-to-market daily and remain within a 20 bps range.

"There are some positive elements to the Parliament's proposal, including the concept of LVNAV," says Tom Callahan, Head of Global Cash Management at BlackRock. But as is often the case with such things, the devil will be in the detail. "Theoretically, the structure could deliver some of the key CNAV features that investors value – such as same day liquidity, intraday liquidity and a stable net asset value. But the technical details of the structure, including the sunset clause, trigger threshold and NAV calculation, are still under debate and will ultimately determine whether an LVNAV product is operationally feasible."

How much of the European Parliament's proposed changes will make it into the final version of the rules remains to be seen. First, EU Member States in the Council will offer their suggestions, and then the legislation will enter the so-called 'trialogue', stage in which the EC, EP and Council come together to agree a compromise. The Council rotates its presidency every six months. Currently the Dutch hold the Council Presidency; the next two Presidencies reside with Slovakia and Malta.

"If the Dutch Presidency manages to reach an agreement between Member States in the Council by July then a triologue agreement by the end of the year is a possibility," says the manager.

liquidity management. Treasurers should be careful not to get too distracted by what happens to AUM around the time of the switch, since such shifts might not necessarily be reflecting the sentiment of their peers.

"I think a lot of investors would agree with the idea that we are putting forward that there is still value in these products," says Harbison. "There has been a transition from retail and some other institutional investors from prime to government funds, and the risk is that leads corporate investors to think that this flow is being driven solely by other treasurers so they need to go along with it."

Harbison is not the only person in the asset management world who thinks that many investors will continue to use MMFs that switch to VNAV. "We have not seen a large scale shift into government funds yet," says Tom Callahan, Head of Global Cash Management at BlackRock. "Through our conversations with clients we know there are certainly a number who may switch to government funds in the first instance as they assess the new landscape but we at Blackrock remain bullish on the value of prime MMFs for corporate investors in the longer term."

### Time to act

Those treasurers who, making use of the new information funds have to disclose, to analyse how those NAVs behave may reach a different conclusion from those who move into government funds. But with the much talked about changes now becoming a reality, treasurers need to decide soon.

"Some investors probably feel there is a lot of time before October 2016," says Fishman. "I will tell you that there is not."

Treasurers need to begin thinking now about what their investments will look like after the changes come into effect. Systems may have to be updated to be able to account for a variable NAV; investment policies may have to be amended. "If they are able to handle those things then there will be an incremental yield in prime MMFs that investors can capture," says Fisher. "If they can't then they will need to prepare to move to a government fund."

HSBC's Harbison agrees that now is the time to act: "We think now is the right time to start thinking about this. Investors still have time between now and October to figure out what their investment line-up is going to look like after the regulation has been fully implemented. Now, at least, they have all the available information to make that decision."

So while VNAV was initially perceived as a 'show-stopper' by many corporate investors, asset managers seem confident that comfort levels will increase over time. Further, as treasurers become acquainted with the new product – either through experience or simply by monitoring the published NAVs of their funds – they too should become more comfortable.

Getting used to how such funds behave is undoubtedly a critical exercise for MMF users. Large companies will often invest cash in a wide, diversified portfolio of assets and instruments: from treasury bills to commercial paper and short-dated corporate bonds. But for daily liquidity, that cash put aside for day-to-day operational needs, MMFs continue to be the favoured instrument for many treasurers. In both the US and Europe, regulation is coming that is going to change the MMF landscape drastically. Now is the time to prepare.





## Taking on the challenge

### Guillermo Gualino

Vice President and Treasurer



**Agilent Technologies**

Guillermo Gualino, Vice President and Treasurer has never been one to shy away from a challenge. This, in fact, has been the hallmark of his career to date. Here, Gualino shares how this desire to take on the tough tasks combined with a philosophy rooted in the art of consulting has brought success and fostered a rather unique approach to treasury management.

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*Agilent, created when it spun off from Hewlett-Packard Company in 1999, is a leader in life sciences, diagnostics and applied chemical markets. The company provides laboratories worldwide with instruments, services, software, consumables, applications and expertise.*

“What was the title of the person you have been filling in for over recent months?” asked the then CFO of American supply chain solutions firm Flextronics. “I have been filling in for the Assistant Treasurer,” replied Guillermo Gualino, who was Flextronics’ then Corporate Finance Manager. “Well that is your role now, go and do what you need to do,” said the CFO. And just like that Gualino was given the responsibility for rebuilding the treasury department at the headquarters of a global corporation.

The somewhat unspectacular conversation bookmarked a remarkable point in the career of Gualino, who had only been working in the treasury profession for less than a year. During this time he had to step up and help keep treasury operations afloat over the holiday period after a painful restructuring saw the entire US treasury team exit the firm.

“I knew very little about cash management and the other areas of treasury, but somebody needed to take ownership of

the function during this time,” says Gualino. “I made a lot of mistakes during those first months. But more importantly, I got a lot of things right and the operation survived the crisis.”

This short tale says a lot about Gualino and his approach to his career which has been characterised by jumping in at the deep end, learning from both successes and failures, being resourceful and thinking outside of the box, taking difficult decisions and, perhaps most importantly, tackling every challenge head on.

## A consultant's view

In some respects even Gualino's choice of degree emphasises these attributes, having decided to study electrical engineering over business at the Universidad La Salle in Mexico City.

“I knew that I wanted to go into banking or business following my degree and that both of these degree options would provide me with the necessary skills, but I selected electrical engineering because it would provide the greatest challenge.”

Having successfully completed his electrical engineering degree, Gualino took a consulting job with Andersen Consulting as his first full time role. And whilst only being with the company for a year he believes that it played a pivotal role in shaping his working philosophy today. “As a consultant you have to become an expert in a topic very quickly, often with no prior experience of that area,” he explains.

“This was a very difficult job, I was underpaid and overworked, like many graduates looking to make their way,” he adds.

“But the role proved to me that you can take on any challenge, even if you don't have any prior knowledge or experience.”

Gualino's next challenge was working as a private equity associate for Orange Country venture capital firm, Ventana Capital – his first step into the financial arena. “This was a very challenging role because I had to marry the problem solving skills acquired during my engineering degree whilst also learning about finance,” he explains. “I had little experience in this area but was able to learn very quickly by building financial models and business plans for the companies we were working with.”

Utilising his newly-found financial skills, Gualino moved back into financial consulting roles with both EY and PwC. Whilst enjoyable roles, he admits that he felt a longing to move into industry. “Throughout my career I had always been a consultant on the outside looking in, but I could see that the real challenge was being on the inside and working in a corporation,” he says. “The question was where do I go in order to utilise the skills that I have and also learn new ones?”

## Forever learning

Having analysed the financial operations of large organisations, Gualino spotted a function which he perceived as being the best fit: corporate treasury. It was the role's mixture of operations and finance which attracted him the most and also the flexibility of the function enabling him to be creative and utilise his problem solving skills.

As previously documented, his first few months were relatively turbulent given the structural changes at Flextronics, and he admits that it was a steep learning curve and that he was probably doing a little more problem solving than he should have been at this nascent stage of his treasury career. But, as

his previous experience has highlighted, Gualino is not one to step away from a challenge. Once he had helped steer Flextronics Treasury out of danger, he was ready to commit himself to the profession and assumed the role of Assistant Treasurer.

“I stayed at Flextronics for seven years before joining Agilent Technologies,” he says, “and it enabled me to get exposure to every corner of the treasury function, many of which I was looking at without any previously knowledge or experience. In Agilent, I have worked on a number of major deals and transactions, including the spin-off of Keysight (Agilent's former electronic measurement business) which was especially challenging. But all of this provided me with the treasury foundation from which my career is now built on.”

Yet, despite his 13 years in treasury and his senior position with Agilent, Gualino is not one to rest on his laurels. “I feel extremely comfortable now talking treasury with anybody, but it has taken me a long time to get to this position and I am still learning about new ideas and concepts every day,” he says. “I never say no to any opportunity to learn something new in treasury.”

## The art of creating a cross-functional team

Given his rather unique experiences throughout his career, it is unsurprising that Gualino runs the Agilent treasury department slightly differently to that of many of his peers. The most notable trait being that despite its rather large size – 18 individuals split between the US and Singapore – Gualino treats it as if it was a much smaller team, with each individual involving themselves in many different tasks across the department.

“I run the department as a reflection of how I got to this position,” he explains. “I still consider myself a consultant in life and I expect this from every member of my team. We therefore have a cross-functional team with no specialists.”

“Throughout my career I had always been a consultant on the outside looking in, but I could see that the real challenge was being on the inside and working in a corporation.”

Gualino is keen to point out that his approach is not akin to the rotation system utilised by many large companies.

“These rotations do not give people long enough to get a good understanding of a function,” he explains. “I don't want my staff just to be aware of a few areas of treasury, I want them to have a stake in it.”

In his view, this provides many benefits including the ability to continue functioning as normal should somebody be on holiday or leave the company – avoiding a similar situation to which he found himself in at Flextronics. But, more importantly, it also creates a forum of new ideas. “The people who currently look after FX are extremely smart finance professionals, but they had no previous experience in this area,” he explains. “They had to learn quickly, but in doing so they were able to provide a fresh perspective and ask questions about what we did and why – just like consultants.”



In doing so, we have discovered many things that we have never seen before and been able to achieve many process efficiencies as a result.” For Gualino the results of the approach speak for themselves. “Today we run one of the best FX programmes in our industry.”

## A belief in mentoring

Whilst Gualino has certainly seen many benefits derived from his management philosophy, he admits that it certainly isn't the easiest approach. “With the team structured how it is I cannot simply delegate tasks,” he explains. “Instead I have to be constantly engaged with the team and act as a consultant and mentor. I have a project that I am working on at all times with every member of the team and spend a lot of time working with them one-on-one and also in groups.”

But, having had the benefit of two mentors playing a big role in his career to date, Gualino is more than happy to do this and believes it is an important part of managing a successful team – and producing the next generation of treasury leaders. “My team are very motivated because they are always challenged and constantly learning, but they know that should they come into difficulty with anything they can come to me and I can help,” he says. “I became a treasurer by learning while doing and I want to give my team the same opportunities that I have had. All I ask is that they are fully committed.”

## The dynamic supply chain

Keeping with the trend of taking on the hard challenges, Gualino made a name for himself in treasury circles through his work in the somewhat tricky area of supply chain finance (SCF). Today he is considered one of the foremost experts in the topic having built a number of successful SCF programmes at Agilent and Flextronics.

One of the most challenging aspects of SCF programmes widely expressed by treasurers is its cross-functional nature and the need to get buy-in from both internal and external parties. And Gualino agrees: “Obtaining internal buy-in, from my experience, is the most difficult aspect of getting any SCF programme off the ground,” he says. “Often SCF is new for the company and it is therefore of the imperative that the treasurer sells the solutions to the different business units.”

To do this, Gualino recommends looking no further than simply outlining the benefits each business unit can achieve by supporting the programme. “Finance for instance will be interested in the fact that it can receive a higher return on its cash than just simply investing this in short-term funds. Of course, to do this treasury needs to have a detailed understanding of each unit's objectives in order to show them the benefits. This is often made harder due to the fact that to begin with your arguments are largely theoretical.”

On the supplier side Gualino has taken a similar approach in respect to selling the benefits to the suppliers – rather than simply forcing or manipulating them to on-board. “There is little benefit in forcing their hand. From what I have experienced when suppliers are forced into these programmes, they will simply raise their prices at a later date to compensate for the lost revenue,” he explains. “SCF should be seen as a service to a supplier, not a way to exploit them.”

Again, Gualino has used his consultancy background to sell the programme to suppliers. “If you are going to make it

optional you have to sell it to them, this includes spending lots of time meeting with them and explaining the benefits. It is hard work, but when they join the programme it is a win-win for both us and the supplier.”

## Streamlining processes with technology

As with many aspects of treasury, technology has played a big role in making a SCF programme easier to operate. “The proliferation of SCF platforms has made it a lot easier to reach out to suppliers and give them the option to use the service,” he explains. “In my view, the integration of e-invoicing into these platforms has been the biggest development because the suppliers need to go into the portal to download the invoice. They can decide there and then if they want to take the early payment.”

“My team are very motivated because they are always challenged and constantly learning, but they know that should they come into difficulty with anything they can come to me and I can help.”

The integration and automation which technology has brought has also proved an advantage for Gualino. “Our platform is fully integrated into the ERP, the cash management system and the e-invoicing portal,” he says. “Therefore when a supplier takes an early payment it just happens, and everything is updated seamlessly – this has transformed it from a difficult service, to an easy service to offer our suppliers.”

## Fighting fit

Unsurprisingly, given his committed approach to his work, Gualino is a busy man, and he admits that there are just not enough hours in the day to get everything done. That being said he is a firm believer in the need to maintain a healthy work-life balance, where possible.

“I try to carve out an hour every day to work out,” he says. “Some call this a hobby but for me it is more a necessity,” he jokes. “I used to be a black belt in taekwondo and now I do a lot of kickboxing at the gym. This is how I maintain my balance and keep my stress down, it also enables me to stay healthy and work the hours that I do.”

Being a family man, Gualino also ensures that he spends as much time with his wife and two children as possible. Again these provide a great remedy for the stresses of treasury. “I describe my little one as my medicine – she calms me down and the stress just dissolves when I am with her,” he says.

Combined, these out of office activities provide Gualino with the drive to prepare for his next challenge, wherever that may arise. “I really enjoy my work right now and the challenges it presents,” he says. “And when my bosses ask me what I want to do next I don't state a function or title, I simply say if there is something that needs to be fixed or improved that nobody wants to do, I will do that. In my view to get where you want to be just focus on the challenge and the rest will follow.”

# Embracing the unpredictable: a practical approach to managing treasury in volatile markets

*Tackling the volatile marketplaces that make up the world's emerging economies can be a challenge for corporates looking to expand. For treasurers, a pragmatic approach will keep the ship steady but how does this translate into action?*



**Peter Cunningham**  
Consumer & Healthcare sector  
Sales Head for EMEA,  
Treasury and Trade Solutions, Citi



**Emanuela Saccarola**  
Global Product Manager  
Cross-Currency Payments  
Treasury and Trade Solutions, Citi

Despite the best efforts of corporate due diligence, there is no economy in the world that will reveal in advance its hand in quite the level of detail that companies would like. For trade in the emerging markets (EM), the concern that it generates may be amplified many times over. Whilst the ground can to an extent be prepared in advance, the everyday experience of operating in a volatile market will at times be challenging. If not properly managed, the attendant risks could prove costly.

For the treasurer, anticipating risk is par for the course. However, at a broader level, the difference between thriving in a volatile market and merely surviving depends not only on putting the right processes in place as early as possible but also on the quality of advice received.

The strategic intent to tap into low-cost growth markets will likely mean new trading partners on the procurement and sales sides. This potentially introduces several new risk elements – especially around the handling of new currencies. The role of treasury thus takes on a new importance in the EM space. The ability to quickly and precisely establish what this means from a funding, liquidity and cash management perspective could be the difference between success and very expensive failure.

## Advisory role

It is no coincidence then that in the last few years the corporate landscape has witnessed the emergence of treasury as an advisory function. In their capacity as a trusted resource, Peter Cunningham, Consumer & Healthcare sector Sales Head for EMEA, Treasury and Trade Solutions, Citi, believes treasurers are increasingly called upon to bring their knowledge to the table. This is notably the case when a company is seriously looking to expand into new territories, and in particular the EMs. By bringing pragmatic, fact-based input, the treasurer enables the business “to make more informed decisions”, he says.

The knowledge-based approach of the treasurer traverses a broad sweep of concerns, bringing aspects such as sovereign risk, counterparty risk, operational risk and regulatory risk into sharp relief, alongside the treasury fundamentals. It thus becomes the role of the treasurer-educator to

raise awareness across the business of potential hazards. In practice, Cunningham suggests that it may be more effective to influence other business functions by tapping into the common KPIs and scorecards used by the CFO, using that office as the focal point of change.

Where the risks of emerging market trade are as clear as the benefits, it may even be prudent to consider an organisational or structural rethink to facilitate lines of communication and learning. However, as EM trade becomes established and business risks become tangible, it is apparent to Cunningham that in some cases the significance of this initial set-up phase has not been fully recognised. “They may have a well thought out strategy and business plan but that organisational element is critical,” he warns.

Once a business has found its EM feet, the role of treasurer takes on renewed importance. The management of working capital, and in particular the cash conversion cycle, will be determined to a large extent by the nature of the commercial relationship the business has with its customers and suppliers. In many large businesses there will be silos of operation which can generate conflicting objectives – sales may not consider how the offer to clients of extended terms to secure a contract may negatively impact days sales outstanding and free cash flow. This, says Cunningham, is why CFO sponsorship and organisational alignment are so important. Whilst policy can be imposed across the board, EM trade often requires flexibility. With the right support, the treasury advisory role can help strike the right balance and offer solutions where necessary.

## Keep it liquid

In the current phase of commodity market volatility lower prices can be beneficial to many corporates' material input costs. However, in counterpoint, Cunningham notes that plummeting prices may impair revenues of suppliers, many of whom are EM-based. As a



result, if the ability to fund their own cash conversion cycle is weakened, the stability of the supply chain becomes a matter of extreme concern to all. In this case, working capital solutions such as supply chain finance and dynamic discounting can be used as a means of injecting essential supply chain liquidity.

As a liquidity solution this may also tackle one of the key differences found between developed and emerging territories when managing routes to market, notes Cunningham. A fast moving consumer goods (FMCG) business, for instance, will sell into large and generally liquid retailers, often multinationals, tending not to generate immediate working capital concerns. In the EM space, often the route is via smaller retailers, wholesalers or distributors. These will almost certainly be weaker-rated than their major global or multinational counterparts. However, he advises, the focus is now on implementing sales-channel finance structures which enable channel partners to defer payment terms, facilitating increased sales for the FMCG company as their partner is able to fund their own working capital cycle. "This can be a solution where a corporate sees latent demand for its products in an emerging market but does not want those smaller distributors to be a choke point in realising that market share or sales growth."

## Currency matters

On the other side of the coin, from a payments perspective, as companies build commercial relationships in EM territories, one of the key judgements will be around mitigation of FX volatility risk, says Emanuela Saccarola, Global Product Manager Cross-Currency Payments Treasury and Trade Solutions, Citi. In Latin America, for example, where certain currencies have devalued significantly over the past 18 months, suppliers have been seeking payment in local currency. Whereas some suppliers have tried to outsource the FX risk to the buyer, where invoicing in local currency has been agreed, she notes a trend towards the negotiation of better terms or lower unit costs for the buyer as they take on FX volatility – a risk, she adds, which they can then mitigate by hedging or making payments through a bank-provided cross-currency solution.

Regardless of the direction of cash flow, for many businesses the EM regulatory environment means trapped liquidity remains a threat, despite the best efforts of core countries such as China to liberalise. The means deployed to handle this issue will depend on corporate need, says Saccarola. Having a manufacturing and sales function in-country can easily create a natural currency hedge of receivables and payables, if desired. But if a company needs to invest significantly in an EM operation before it sees a major return, it will have a funding choice to make. This, she notes, will be contingent upon the desire or ability for cash to be sourced from a central operation, or risk keeping it in-country. Especially at the beginning, sourcing cash centrally through a cross-currency payments solution may be the smarter approach leading to increased visibility and control, cash management efficiencies, and smaller risks. A global bank like Citi can power the EM investment stage, provide ongoing advice, and seamlessly support a company's transition to a local solution if and when required.

Of course, the need is to optimise the funding of local subsidiaries wherever they are. Forecasting the requirement for cash and using intercompany funding on an 'as needed' basis should ensure excess capital is not injected locally. But when cash balances are built up, it would be provident of treasury to explore options such as periodic dividend repatriation or royalty payments.

## A profitable partnership

Even where cash is trapped locally, Cunningham argues the need to observe the treasury fundamentals of security, liquidity and yield when managing short-term excess cash. It is here, he believes, that partnership with a global banking group such as Citi can deliver tangible benefits. "Often where a multinational has operations across highly regulated markets, we can work to compensate them on a multi-country basis," he explains. "Cash may be trapped but we can take a holistic view of deposits and provide yield-uptick on balances across different markets."

Such a view also yields results where none might be expected. Where counterparty trading-partner concerns require the use of financial risk mitigation tools such as Letters of Credit (LCs), or where perhaps local rules require the issuance of guarantees, it may be possible to cash collateralise those risk products. From a Basel III perspective, a bank issuing an LC or guarantee as a straightforward product would price each based in part on its balance-sheet treatment. Cash collateralisation will afford the bank balance sheet relief under Basel III, lowering overheads. By generating an implied yield on the cost differential – which may be more attractive than a short-term investment of similar tenor – it becomes "an effective way of recycling cash," notes Cunningham.

## The value of connections

In EM trade, the benefits of a well-connected banking partner both on and offshore are without question. A bank that offers multiple solutions globally that also has fully integrated streams – whether those flows are initiated centrally or locally by the client – is, says Saccarola, "advantageous". Core activities such as in-country account opening, cross-currency payments and direct access to local clearing are today perhaps a given. However in providing global visibility and control, a bank must also be well-positioned with people on the ground who are not only able to determine and advise on the most appropriate solutions for the client, especially around regulatory and reporting aspects, but who also understand the local language and culture. "A proprietary network and access in all key EMs is an intangible value to clients," says Saccarola.

There is perhaps one further desirable facility that few banks can claim with any legitimacy and for Cunningham this is a clear differentiator at Citi. By combining its strong local presence with its weight as a global systemically important bank, the bank has access to the world's regulators and central banks. "We are often the voice of our clients when talking to these bodies about policy-setting and advisory matters," he explains. "When trading in EM territories, having a partner such as Citi allows direct communication with the authorities." In fact, in an unpredictable world, staying connected may well be the strategy that makes the difference.



# Sub-Saharan Africa: diamond in the rough

*In regions where the potential is great, corresponding familiarity is typically necessary – ideally on the ground. Nowhere is this more the case than in Sub-Saharan Africa where, without sufficient data, the myths of doing business have historically prevailed, hampering corporates' ability (and willingness) to adapt to local market realities. We take a closer look at how the tides are turning in favour of those who want to engage in the region's long-term growth game.*

The rapid growth of countries in Sub-Saharan Africa (SSA) has been one of the global economy's success stories over recent years. Two-thirds of the region's countries boast more than ten years of sustained growth, whilst a quarter have enjoyed more than 20 years of continual GDP growth – and this looks set to continue.

Real growth in SSA countries was forecast by the IMF to be above 4% in 2015, a faster pace than all other developing regions – except China. That pace of growth is below the 4.4% annual average growth rate of the past two decades, though. But, unlike previous resource-dependent booms, growth is now more diversified. The rapidly expanding middle class and its increased spending, for instance, have made SSA appealing to consumer goods firms. Between 2005 and 2015, consumer spending grew at nearly three times the rate of average SSA GDP growth.

Also, over the past decade or so, SSA has experienced a marked shift in trade flows from traditional partners (predominately in Europe, North America and the Middle East) to faster growing Asian countries. China is now Africa's largest trade partner, representing about a quarter of SSA's trade from just 2.3% in the 1980s.

## Market realities

That said, it has been argued that macroeconomic indicators are insufficient at capturing the reality in each market – especially when it comes to industry-specific data. Perception and reality often diverge when it comes to Africa. In a Harvard Business Review article, for instance, it was suggested that whilst Angola's market size and spending potential look good on paper, operating there may be very challenging without prior experience.





Akin to the region's physical landscape, the markets of SSA vary greatly from country to country. Corporates could be unaware of which of the countries retain the greatest prospects for their business and whilst they offer great potential, failure to understand the nuances will cause problems for corporates.

Therefore, according to Patrick Gutmann, Group Head, Transaction Services Group for Ecobank, "having access to local knowledge is an important aspect of creating efficiency in the treasury environment." He adds that in as far as regulation and business practices in SSA are concerned, not everything can be found online. By appreciating eyes, ears and relationships on the ground are necessary to circumnavigate the challenges and opportunities, corporates can hope to combine available data with knowledge of the operating environment in each market.

## Hit the ground running

Firstly, it is worth noting that action is underway already. The value of merger and acquisitions (M&As) targeting SSA companies reached a record \$41.4bn in 2015, the lion share of which (86%) went into South Africa. Nigeria, Kenya and Angola also attracted billions of dollars of M&A investments into energy and power sectors. Indeed, countries are attracting investor attention as the continent's natural resource sector further develops. Additionally, the Global Competitiveness Index (GCI) identified numerous SSA countries – including Mauritius, South Africa, Rwanda, Botswana, Namibia, Kenya and Seychelles – as having scores comparable to the averages set by other emerging regions. Increased infrastructure spending has been supporting the countries in lowering operating costs – highly encouraging for commodity exporters, for instance.

It would be wrong to ignore the challenges, however. Barriers to economic development include:

- The lack of job creation in line with development.
- Poor infrastructure, especially electricity and transport.
- Limited supply of skilled labour.
- Socio-political challenges.

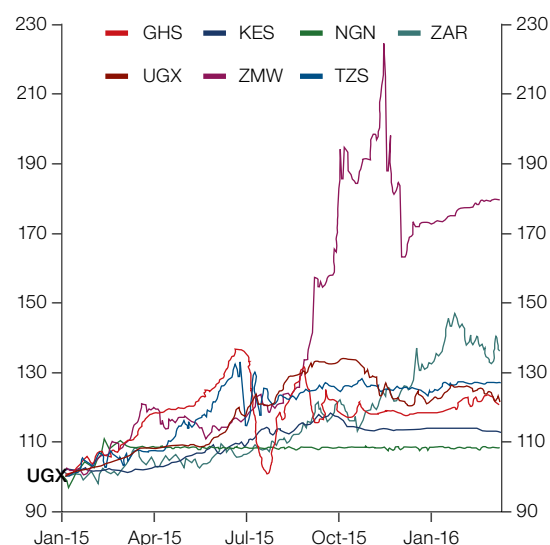
Headwinds also come in the form of plummeting commodity prices and volatility globally. What's more, the increased participation of low-cost emerging and developing countries in global trade, combined with the fall in commodity prices, has accentuated the need to prioritise competitiveness-enhancing reforms.

Concerns in specific countries include the South African Central Bank's defence of the rand, which is reducing the availability of hard currency in the country, subduing growth potential. In fact, local African currencies across the continent have been fluctuating against the dollar recently, causing many a corporate headache (chart 1). "Treasury departments need to have the skills to deal with currency volatility," says Artemis Galatis, General Manager, ACTSA (Association of Corporate Treasurers of Southern Africa). "The peaks and troughs can be far greater in emerging currencies than in sterling or USD."

As a result of some of these challenges, author of the aptly named 'Africa: rich but poor', Joseph Amamoo, laments the fact that Africa has an abundance of resources which remain unexploited. "You get situations in villages where there may be diamonds in the ground but the people, with limited education,

**Chart 1: African local currency fluctuation against the USD**

Jan 2015 to date



Source: Standard Chartered Research

do not know they're there. Even if they did, they don't know how to mine them, nor do they have the machinery to do so," he says. "You need foreign investors to help in a joint effort to exploit these resources for the benefit of both sides." Amamoo clarifies, however, that corporates cannot expect conditions to be the same as in developed countries. Power outages and untreated water, for instance, are common across SSA.

Nonetheless, there are strengths – a burgeoning and young labour force which is expected to increase dramatically just as the rest of the world starts ageing, for instance. Additionally, as Amamoo highlighted, there are untapped resources.

For example, the agricultural sector represents an opportunity for growth: the region holds more than 60% of arable land globally yet only 15% is under cultivation. In a recent Citi Online Academy webinar, titled 'Getting a Grip on Africa', Peter Crawley, Managing Director, Treasury & Trade Solutions Head, Sub-Saharan Africa at Citi estimated that in terms of global resources, SSA holds around 18% of gold, 42% of diamonds, 65% of cobalt reserves, 95% of platinum, 8% of natural gas and vast amounts of oil.

## Leapfrogging old technologies

In terms of adapting to local variances, treasury expertise has developed in accordance with different needs, which are perhaps uniquely prominent in the region; for example, when dealing with buyers and distributors that operate largely in cash. "The prevalence of physical cash is a challenge that corporates who embark on a journey on the continent will have to handle effectively," says Gutmann.

Mobile has emerged as a solution to this challenge. It is well known that Africa leads the way when it comes to mobile money accounts – only 34% of adults in SSA had a bank account in 2014, but 12% have a mobile money account, according to the World Bank's Financial Inclusion Database. "Because mobile banking has taken hold in many countries, there is a natural infrastructure from which to create less of a

cash-based payment environment – and to eliminate the inefficiencies associated with handling cash,” says Gutmann. “Corporates can now leverage mobile infrastructure both in terms of making payments out into areas that otherwise might not be reached and accepting funds through a mobile wallet.”

Indeed, the arrival of electronic payments and mobile technology has been transformational in Africa, allowing the treasurer to ‘circumvent’ Africa’s poor infrastructure without being hamstrung by legacy technologies. For a continent that has long been dependent on physical cash flows, increasing digitisation has led to large gains in cash traceability, immediacy of notification and information visibility. Citi, for instance, has seen a 29% increase in host-to-host connectivity since 2012, with 20% of those clients using XML file format. This is supported by increased sophistication in the back end clearing of central banks. Nigeria, where advances in payments infrastructure has resulted in widespread uptake of NIBSS Instant Payments, was highlighted as an example in the webinar by Geoffrey Gursel, Director, Treasury & Trade Solutions Sales Head, Sub-Saharan Africa at Citi.

What is less known perhaps is that Africa could leapfrog into a new era of power generation, responding to climate change related hazards prominent in the region, resolving some internal issues (such as power outages) and providing a competitive edge. The Africa Progress Report 2015 presents the case that “utility reform, new technologies and new business models could be as transformative in energy as the mobile phone has been in telecommunications”, as demand for modern energy is set to surge. In particular, renewable energy – including solar, geothermal and wind power – is making some remarkable advances in Africa, the report notes.

## Banking landscape

However, sustainable power will not be the panacea to Africa’s struggles. The banking sector plays a huge part in ensuring corporates can indeed operate in, invest in and finance such projects. Whilst acknowledging that the maturity of the banking sector across SSA can differ significantly, Gutmann says: “It is fair to say that across the continent, all of the countries are seeing significant development creating efficiencies within their banking landscape.”

Whilst in the past the reliance on local banks led to corporates having a large number of banking partners, the increasing adoption of SWIFT and host-to-host has resulted in a desire to have fewer banks, minimising the cost and administrative burden. For Philip Panaino, Regional Head, Transactional Banking, Africa and Middle East, Standard Chartered, technology has afforded treasurers regional advances in support. “If you are operating in SSA with global banks, you will have access to similar capabilities, platforms and technology found internationally,” he says.

What’s more, sophisticated technology won’t always be the reserve of the international banks. “The traditional challenge that local or regional banks in SSA do not have the same level of technological capabilities as multinationals in Europe or the US are used to is closing,” says Gutmann.

Ecobank invested considerably in infrastructure to support the use of less manual processes in its cash management system, Omni, explains Sonya Crites, Head of Cash Management Products at D+H, the solutions provider which worked with the bank. The single uniform online banking

platform allows a treasurer visibility and transparency into all of their accounts across Ecobank’s entire footprint. They can also integrate other non-Ecobank accounts into that offering. “To give clients access to the entire Africa footprint through a single portal is quite powerful,” says Gutmann.

But whilst technology is allowing regional strategies to become a reality, local knowledge is a necessity for business operations. The questions treasurers must answer, such as whether to use SWIFT, mobile, TMSs, online banking platforms and so on, are eased by knowledge of each market and the risks to mitigate – particularly when it comes to regulation. Challenges include the widespread illegality of cross-border notional pooling to on-the-ground difficulties such as obtaining work permits for employees of certain nationalities. Exchange controls are particularly problematic as most countries don’t allow the free movement of funds cross-border. The underlying exchange control regulation in most SSA countries is that goods and services have to accompany foreign exchange, but this is at odds with notional pooling, the method treasurers would typically turn to in order to manage liquidity, concentrating funds for optimal interest returns.

In South Africa, stringent exchange control regulations shielded the economy somewhat from the credit crunch in 2008. “As a result, corporates in the country are less sceptical of banks. It is a trusting environment,” says Galatis. On the whole, she says, whilst on the face of it corporates may feel regulation is restrictive, SSA regulators are “listening to their needs and trying to accommodate wherever they can”.

Panaino concurs: “If clients experience challenges or queries around industry frameworks and regulation, we proactively engage regulators on the clients’ behalf. In 90% of the cases, we have achieved a flexible and sensible evolution on various complex issues, demonstrating the merits of facilitating two-way flow of communication between the public and private sectors.”

## The silver lining

Treasurers of large multinationals in SSA are those weathering the current storm the best, despite the region’s varying rules, according to Citi’s webinar; Gina Schoeman, South African Economist, Citi spoke of listed companies in South Africa enjoying economies of scale, allowing them to perform better than SMEs. The metrics can reflect a slightly cloudier view, though. But whilst Citi predicts stagnated growth of 0.3% for 2016, the outlook over the longer-term moves “in the right direction”, says Schoeman, reaching 1.8% by 2018. This highlights that the African growth story is a long-term game. Potential remains attractive, but making it to that prosperous point depends upon a corporate’s ability to adapt to the current environment.

According to Frontier Strategy Group’s Sub-Saharan Africa Resilience to External Shocks Index, adaptation could be the key to success. Indicative of this, Google won a Treasury Today Adam Smith Award in the ‘Harnessing the power of technology’ category by implementing a scalable mobile payment solution, despite Africa’s diverse peculiarities and infrastructural inadequacies.

In fact, Panaino says that nuances “are what make Africa vibrant and exciting”, and it is this which has driven corporates to establish the region’s own set of treasury best practices, and support “the progression of the sector as a whole, encouraging the uplift of skills and expertise”.

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# How safe is your financial data?

*Cybercrime has existed in numerous guises since the emergence of technology in the workplace and it is an ever evolving space. As a result of this evolution the threats to businesses are multiplying and becoming increasingly complex, seeing cyber-security creep to the top of business leaders' minds. In this article, Treasury Today explores the changing threats and what treasurers can do to help fend off cyber-criminals.*

It is widely accepted that cybercrime poses a huge risk to businesses, and if you are not concerned about cyber-security, then you should be. The numbers speak for themselves: cyber-attacks cost companies around the world \$7.7m a year on average in losses, according to the 2015 Ponemon Institute of Cyber Crime Study of 252 companies. These attacks did not discriminate against company size, industry or location.

Many businesses, perhaps in light of some recent high profile cyber incidents, have woken up to the risk. As a survey conducted by PwC, titled The Global State of Information Security 2016, highlights that 91% now have risk-based security frameworks in place and 24% have boosted their security budgets. Despite this work, breaches still occur and at great cost. The reason for this being that a business can only be as strong, in cyber terms, as its weakest link, and in a

multinational with thousands of staff there are many potential weaknesses.

When put in these terms, it may seem that protecting the company's financial data and assets from cyber-criminals is an impossible job. However, with the right education, culture, technology and processes in place, a company can go a long way to achieving this. And a prudent place to start is to understand the threats and from where they originate.

## Shadow corporations

Unfortunately, the threats corporates face are multifaceted, and their origin is frequently shifting. Once cyber-attacks were largely perpetrated by nation states, or by tech-savvy individuals and hackers, today cybercrime is big business. In fact, it is often not understood just how profitable an industry it is.

Information security company Trustwave have looked to lift the lid on the industry, conducting a study into the potential returns a cyber-criminal can expect to make and the numbers are staggering: Trustwave estimate that cyber-criminals receive on average a return on investment of 1,425%. With returns such as these it is unsurprising that cybercrime is becoming increasingly commercialised. As George Quigley, Cyber Security Partner at KPMG explains: "We like the phrase shadow corporations to describe these organisations, because although they are not ethical or legal, they operate much in the same way as any other company, with a management structure and various departments that look after different areas of the operation." Some shadow corporations may have copywriting departments, for instance, that look to craft professional looking phishing emails – rather than those littered with spelling mistakes and dubious URLs of yesteryears. Some have even gone so far as to offer healthcare and pension plans to its employees, it has been reported.

To further maximise revenue, shadow corporations are now offering 'crime-as-a-service' (CaaS), building sophisticated solutions that can be sold to other criminals looking to get a slice of the action. The most advanced of these have an enterprise feel to them with cloud based access and 24x7 support.

## Sophisticated attacks

Just as the threat actors are changing and growing in sophistication, so are the methods. A recently published Threat Report by McAfee Labs outlines this, stating that: "We have seen a change during the past two years, with a significant increase in the number of technically sophisticated attacks. Many of these have been designed purely to evade advanced defences. They are infiltrating in pieces, hiding in seemingly inert code, and waiting for an unprotected moment to emerge."

And once inside a company's system, there are then a number of ways that cyber-criminals can look to generate revenue. "Some hackers will simply extract sensitive information and send a small portion of this back to the company, demanding money in return for safe passage of the rest of the information," says Quigley. Other methods can be more debilitating. "We are seeing the re-emergence of ransomware that can lock users out of the system," he adds. "For treasury, this may cause a problem in terms of being able to access information and authorise transactions." Another similar method Quigley sees returning is the distributed denial service attack, where a threat actor floods the network with traffic, bringing it down. In both of these examples, the criminals will demand a ransom fee to stop the attack.

There is little the company can do in instances such as this. In fact, the FBI have stated that in the case of such an event it may be prudent to simply give into the criminal's demands – which the FBI say the overwhelming majority of institutions do. Interestingly, according to reports, there seems to be some honour amongst thieves. Joseph Bonavolonta, Assistant Special Agent at the FBI's CYBER and Counterintelligence Programme in Boston, told Business Insider that ironically the fact people are paying the ransom is keeping the criminals' demands low, and that in the vast majority of cases access is returned upon receipt of payment.

## ...And unsophisticated attacks

Cyber-criminals are also becoming smarter in how they prey on human frailty to breach a company's defences. "There is a

plethora of information about a company and its people, freely available online, affording cyber-criminals the opportunity to digitally track employees (think social networks) and then launch an attack at an opportunistic time," says Quigley.

A prime example of this is when a member of staff is on holiday, but still keeping half an eye on work, explains Quigley. "Often attacks are planned over a period of 12 to 18 months and in cases such as these a cybercriminal can follow an employee's social media account and find out when they are on holiday," he says. "Once this opportune moment arises the fraudsters can send a phishing email, impersonating somebody from the business they have also been following, asking to approve something – a transaction, for example. The hope being they will do so without suspecting any wrongdoing."

'Friday afternoon fraud' is another arguably less sophisticated attack. Here, cyber-criminals look to take advantage of the rush to complete work before the weekend. Again, the hope is that not enough attention is being paid to what is happening and a transaction of some sort is approved. This was something that occurred to an employee at Fortelus Capital Management LLP, who received a call late on a Friday from somebody claiming to be from Coutts, the investment bank, claiming that there was fraudulent activity on Fortelus' account. To rectify this, the employee used the bank's smart card security system to produce codes for the caller to cancel the suspicious payments. When he returned to work on Monday, \$1.2m had been stolen.

## Building up the barriers

So how can corporates protect against the plethora of cyber risks? Unfortunately, there is no silver bullet; best-in-class cyber-security comes from a mixture of technology, process and people. That being said, technology can go a long way in protecting the business, and a corporate's IT team must ensure that they have a robust firewall system in place and various other technical defence mechanisms.

But digital barriers can only be built so high, and it cannot be assumed that these are impenetrable. As Simon Viney, Director, Security Science at Stroz Friedberg states: "You can invest millions in your cyber-security, but there only needs to be one error, or one misconfiguration, for the criminals to take advantage."

As a result, Viney is seeing corporates dedicating greater resources to penetration testing, where outside experts are hired to attack the network and highlight areas the security falls short. There is also a greater investment in threat intelligence tools that are able to spot patterns in data, and highlight any nuances that may be potential threats – data flowing to an unfamiliar IP address in a location the business doesn't operate in, for instance – providing the opportunity to spot these early and take the necessary action.

Outside parties are also able to provide some layer of protection. Banks, for example, have invested heavily in their fraud detection software and are able to spot irregular payments, based on size, destination, time and a whole host of other parameters. In cases such as these, the bank is able to contact the treasury team and ask if this is a legitimate payment before pushing it through, potentially preventing a significant financial loss.

## Security in the cloud

Technology works both ways, however. Whilst corporates are investing in their cyber-security, they are also investing in



innovative technology, such as the cloud – creating further attack surfaces and areas of concern for corporates. But cloud also offers its advantages, as Philip Pettinato, Chief Technology Officer at Reval, explains: “One of the main benefits I see in cloud technology is that corporates get the benefit of knowing that the other companies they are sharing the platform with have gone through their own extensive audit and penetration testing to ensure that it is secure,” he says. “Thus creating a more secure environment for everyone involved.”

Holding financial data in the cloud can also outsource the burden of cyber-security and, in some cases, offer greater protection compared to leaving it on the company’s own servers. “Most corporates today have security measures in place and they are doing a lot of the right things,” says Pettinato. “Cyber-threats are changing quickly, but the tools we are using to maintain an advantage are up to date and constantly evolving in response to these changes.”

## Step by step

Whilst technology can certainly help protect the business, it is not infallible, particularly when a mistake is unwittingly made by a human. It is therefore vital to ensure that the company has robust processes in place to mitigate the risk of cybercrime and that this is backed up by the education of all employees about the risks. The aim: to create a cyber conscious culture.

In regards to processes, the changes do not have to be dramatic. Take, for example, a member of the treasury department receiving an email from the CFO asking for the account number to be changed on a regular payment. In this instance, it would be wise to question this request and make a phone call to the CFO asking if this is legitimate.

“The treasury team needs to be empowered to question these items,” says Cindy Murray, Head of Platform Transformation, Digital Channels and Client Experience for Global Transaction Services at Bank of America Merrill Lynch (BofAML). “And this should feed into a broader, more robust, segregation of duties in the treasury department. When we see fraud, it is often because the company is enabling a single person to approve and initiate a payment. No matter what security layers are in place, if a cyber-criminal hacked into their desktop and made payments, there would be little way of identifying this payment before it is too late.”

Murray and her team therefore promote a strong segregation of duties to all their clients. However, sometimes a treasury team may be too small to do this effectively. “There is technology that can support corporates with this challenge,” adds Murray. “For instance, we offer two-factor authentication when making payments and also a solution that requires the CFO or senior treasurer to digitally sign the payments before they are approved and initiated by the treasury team.”

The issue however, as mentioned earlier, is that a company is only as strong as its weakest link. And even though a treasury team may follow all the correct processes and have technology in place to mitigate the risk of cybercrime, if somebody in another department mistakenly provides a cyber-criminal with access to the company’s servers, they may be able to make their way into the treasury department’s systems undetected. In fact, such an incident occurred in recent months at an Austrian manufacturing company where \$54m was transferred out of the company’s bank accounts with attackers able to

access authorisation credentials for conducting a wire transfer using the corporate treasury systems.

“Education is vitally important and everybody in the company needs to understand the risks, helping to create a cyber-conscious culture,” says Stroz Friedberg’s Viney. “Board engagement is critical in this respect and the culture has to be driven from the top down. If anyone opts out, then the risk grows.”

## Dealing with a breach

Regrettably, even the companies that do this best may still be prone to cyber-attacks. As a result, experts advise that a company never rest on its laurels, and be prepared for an attack to be successful. And if the worst does happen, then time is of the essence. “Corporates should immediately contact the bank,” says BofAML’s Murray. “We can very quickly trace the payment and attempt to reverse it. But cybercriminals know this, and will try to move the money on as quickly as possible. Therefore, the longer it takes for the bank to be notified the less opportunity we have to recover the payments.”

The corporate treasury department can play a big part in ensuring that an illegitimate transaction is spotted quickly by regularly reconciling its accounts. “Many years ago corporates reconciled monthly. If this was still the case, there would be little chance of recovering an illegitimate payment. Today, corporates are adopting best practice and reconciling daily, and many even intra-day. This is enabling any issues to be identified in good time and further escalated should need be.” In addition, Murray also highlights that banks now offer numerous reports, advice, and acknowledgements that corporates can utilise in order check their payments and ensure that fraud is not occurring.

## A team game

Using this information may become of even greater importance due to the increasing digital connectivity between businesses in the 21<sup>st</sup> century. For instance, a large corporate is likely to be digitally connected to a vast number of counterparties on both the buy and sell side, up and downstream, and each one poses a potential cyber risk. “We have rushed into an interconnected world, and it is nearly impossible for an organisation to be responsible for, or even understand the security, that is being operated by its counterparties,” says KPMG’s Quigley.

The awareness of the cyber-risk posed by third parties undoubtedly increased following the Target incident – where the company’s network credentials were stolen from a third-party vendor. And this is beginning to have an impact on how companies do business, with some looking to shorten their supply chains. “Companies are also analysing the risk profile of the supply chain from a cyber perspective and assessing how they interact with each other and if these channels are secure,” adds Quigley.

The complexity of businesses in the 21<sup>st</sup> century means that this is no mean feat, particularly when so many organisations are reluctant to share their information. “Companies need to understand the importance of sharing data,” says Stroz Friedberg’s Viney. “Cyber-criminals are sharing their information to gain an advantage. So should corporates.” The message is clear: cyber-security is no longer a siloed activity, it is a team game and one that corporates may lose if they don’t work together.



# Plunging into the cash pool

*Multicurrency liquidity management in a volatile economic environment is a challenge but tools are available to help mitigate risk, lower costs and maximise efficiency. Treasury Today goes back to basics with the notions of pooling and sweeping.*

If there was just one single currency for international trade, life would be so much easier. Instead there are around 167 official national currencies recognised as legal tender. Of course, in global trade many of these are little used, if at all. But even amongst the world's core currencies, for an international business, having the funds available to meet all commitments in the right place, at the right time and in the right currency can be a challenge, especially considering the trade-off between maintaining readily available cash and the costs of maintaining this asset.

In order to optimise the corporate cash structure, affording a stronger degree of visibility and control, the practical response to this essential balancing act commonly boils down to the use of a cross-border cash pooling structure. This may include a number of options around the concepts of physical pooling (also known as cash concentration) and notional pooling (sometimes referred to as virtual pooling).

Physical pooling sweeps funds into a central and (preferably) tax-efficient location. A notional pool calculates interest on the combined credit and debit balances of accounts but there is no physical transfer of funds between accounts. Combinations may be used and a multi-banking corporate may choose an overlay provider (based perhaps on convenience, footprint or share of wallet).

From the outset it should be understood that some forms of pooling or automated sweeping are not permitted in certain jurisdictions.

## Overlay structure

An overlay cash pool is the top layer of a cash pooling structure in which liquidity is concentrated. It provides a mechanism to enable the physical concentration of cash across borders to a central liquidity pool. Liquidity and interest can be offset through this top layer, which operates as an umbrella-type structure above a network of underlying regional and local accounts or account pools, which can be with the same bank as the overlay pool or with different, local banks. The aim is to have one top-layer per group and then under this have a network of other structures. This allows the treasurer to connect to any other accounts in the structure below, more or less anywhere.

## Cross-border cash pooling

A cross-border cash pool is a cash management structure that allows a business to concentrate the cash it holds in different countries, across separate bank accounts, in one location. This technique provides corporates with an effective way of

interest optimisation and improved liquidity management. Excess cash from one subsidiary can be moved (swept) to offset debit balances in another. Periodic sweeping to a central account typically uses a 'zero balance account (ZBA)' approach where the account is completely emptied (see below for alternatives). Physical transfers of cash are treated as intercompany lending for tax and regulatory purposes.

## Pooling per legal entity

When a subsidiary maintains multiple bank accounts in different currencies and countries, pooling the bank balances in each country on a legal entity basis can offer benefits to the group treasury. Cross-border sweeps are delivered to a pool in one country – concentrating all the subsidiary's cash into a single position and providing visibility and control over all accounts.

## Pooling per country

If the decision is made to set up pooling per country, each pool will see the various subsidiaries' bank account balances swept to a master account in each country. These master account balances are then swept cross-border into a central pool in the main country of operation. Depending on factors such as the scope of operations and type of business, the corporate will have to weigh up the benefits of potential locations, as well as carrying out a thorough evaluation of the tax and legal issues that may exist in each.

There are a variety of ways in which a cross-border sweeping arrangement can be set up:

- **Cross-border sweeping by legal entity**

Automatic sweeps from the subsidiaries' bank accounts in the different country branches of the concentration bank go directly to the master account at the central pooling location. Should the subsidiary have multiple bank accounts in the same country, the balances need to be consolidated or netted to one account to limit the cross-border sweeps to one per country. If a corporate uses cross-border sweep by legal entity, it needs to be aware of the tax issues that can arise from cross-border inter-company loans being created between the master account holder and the operating companies.

- **Cross-border sweeping with initial domestic sweep**

If the corporate has a number of subsidiaries in each participating country, a two-step process can reduce the number of cross-border transfers involved in the sweeping arrangement. In this case, the master account holder would open a non-resident bank account, or target account, with the concentration bank in each participating country. The purpose of this is to enable cash

concentration to take place on a domestic basis within each country first, prior to a second cross-border sweep from the target account in each country to the master account held in the final pooling location. Once again, the tax status of cross-border inter-company loans must be considered.

- **Cross-border sweeping with domestic notional pooling**

In this set up, the subsidiary balances are notionally pooled in each country first. The cross-border transfer is made from a master account in each of the domestic notional pools to the master account in the central pool location, reducing the balance of each country's notional pool to zero.

In most cases, the group treasury is the master account holder in the pool in each country, as well as at the central pool location. This solution allows local subsidiaries to maintain ownership of their cash balances and removes the need for inter-company loans.

## Sweeping options

There are several variations on the sweeping theme beyond the simple ZBA model:

- **Constant balancing**

Constant balancing operates on the same principle as zero balancing but a pre-defined residual amount is maintained in the sub-accounts as opposed to a balance of zero. The advantage to sub-account holders of this method is that a balance is immediately available at the start of the trading day to action payments, and interest is accrued on the sub-accounts.

- **Target balancing**

Target balancing differs from plain ZBAs in that transfers are made from the master account to the sub-accounts in the opposite direction to which the zero balancing transfers were sent, so the sub-accounts keep a target balance. As the target transfers have a book date of 'today' but a value date of 'tomorrow', the sub-accounts always have a credit book balance but a zero-value balance.

- **Trigger balancing**

Trigger balancing is when upper and lower amounts are set on sub-accounts. Balances that exceed these amounts trigger the zero balancing process to take place, but only on those sub-accounts that meet the limits (these limits may vary for each sub-account). Trigger balancing can eliminate the need to sweep insignificant balances and lower the number of sweeps that take place, which in turn can reduce banking costs.

Some banks also offer the possibility to execute zero-balance sweeps at intervals other than the standard end-of-day frequency. This may benefit companies when activity on certain sub-accounts is low during certain periods.

## Cross-border notional pooling

A cross-border notional pool allows corporates to optimise interest across a number of accounts in a variety of countries. In this case, the debit and credit balances of the participating accounts in each separate country are pooled for interest purposes. This may or may not involve cross-border transfers.

Multi-entity notional pooling is treated as bank lending for accounting purposes. Structuring notional cash pools on a cross-border basis thus can be problematic because the bank will require cross-guarantees for each participant. This means entities in the pool provide guarantees for each other's liabilities. The bank also has the full legal right of set-off over pool accounts. It must retain this for reasons of capital adequacy but it also means it can use a client's funds in one account to settle debts in another and has the option to terminate that agreement. It is rarely invoked but remains a possibility with which some treasurers will not be comfortable.

Once it is established that a cross-border notional cash pool is the corporate's preferred option, and their chosen bank can provide this in the countries (and currencies) required, an assessment by treasury of the structure being offered is required. Some of the main structures for cross-border notional pooling are outlined as follows, using the zero balancing model:

- **Cross-border notional pooling with domestic zero balancing by country**

In this structure, a domestic zero balancing cash pool is set up in each participating country. The balances on the master accounts for each of the domestic zero balancing country pools are then swept cross-border to accounts in the same name in the central notional pool. Sweeps can be two-way or one-way, depending on treasury's requirements. The country accounts in the central pool are notionally pooled for interest purposes. Using this structure, inter-company loans can be created in country, but not cross-border.

- **Cross-border notional pooling with cross-border zero balancing by legal entity**

This structure removes the need for a domestic cash pool to be established, as cross-border sweeps are made on a legal entity basis. Within the cross-border notional pool, separate accounts are opened for each subsidiary using the structure. Sweeps are set up from all accounts held by the subsidiary in every country directly to its notional pool account in the ultimate pooling location. In some circumstances, the subsidiary may have multiple bank accounts in any one country. In this case, it can be beneficial to zero balance on a legal entity basis within the country first.

Cross-border notional pooling with cross-border zero balancing by legal entity ensures that there is no co-mingling of funds between subsidiary balances. The subsidiaries themselves retain control of their operating accounts, while their balances are simultaneously used to improve the group's interest charge. If subsidiaries require funding at the local level, the two-way zero balancing sweeps also enable them to be funded indirectly by the master account holder in the cross-border notional pool.

- **Cross-border notional pooling with domestic notional pooling**

In-country notional cash pools are established for each country that the corporate requires in this structure. The master account holder for each of these then arranges transfers to an account in their own name that resides in the cross-border notional pool in the main pooling location. These accounts are then notionally pooled. The main benefit of this structure is on the legal

side, as the number of participating accounts in the cross-border notional pool is streamlined.

## Multi-bank cross-border solutions

Cross-border pooling solutions can also be categorised according to whether multiple local banks are used in each country, or a single network that covers the region (or indeed the world) is employed. Using local banks in each individual country may be advantageous if the corporate operates in a relatively small number of countries, especially if it requires highly specific local expertise and services.

Using a larger regional network bank offers the advantages of harmonised services and documentation and the possibility to execute true end-of-day-based cross-border zero balancing. In order for a regional network bank to be a viable option, it must of course have branches or operating subsidiaries operating in all the countries in which the corporate is active.

Certain banks offer multi-bank sweeping services that automatically transfer balances between local bank accounts and the main cash management bank. Since cross-border multi-bank sweeps go through the correspondent banking process, the sweeps usually happen before the end of the business day allowing next-day use at best. Corporate SWIFT connectivity may be used to implement a bank-agnostic in-house pooling structure so that processing and use of the cash within the group is intraday.

This is clearly an advantage but will require the relevant entities to be incorporated into the technical infrastructure of a centralised treasury operation, and the establishment of a base with at least one major bank. The SWIFT network allows connection to almost every bank using various message types (typically MT940s in this instance), the aim being to achieve as much message standardisation and thus automation as possible. Issues with 'non-standard' SWIFT messages (in terms of defining the required fields) are common between different banks. SWIFT's ISO 20022 .camt messages, once fully adopted, will play a crucial role in developing this opportunity.

## Trapped cash

In strongly regulated financial jurisdictions there may be tax implications, restrictions on inter-company lending and limitations on foreign currency convertibility and transfers. So-called 'trapped cash' creates a challenge for companies looking to optimise global liquidity. Although balances in some restricted jurisdictions can be used to offset borrowing elsewhere using interest enhancement/optimisation products, the rules vary.

China in particular is making inroads into the internationalisation of its currency but only recently has it been possible for wholly Foreign Owned Entities in the Shanghai Free Trade Zone to take advantage of renminbi (RMB) cross-border pooling. The success of such a scheme will almost certainly be predicated on access to in-depth local knowledge.

## Legal framework

Because specific statutory frameworks often do not exist in relation to cash pooling, the framework in which it may operate will largely consist of rules imposed by domestic banking regulations and corporate and insolvency laws which also vary between each jurisdiction.

Parties to a cash pooling arrangement may therefore need to devise a legal structure based on conventional legal instruments and concepts such as inter-company loans or those relating to local foreign exchange regulations, in order to establish the parameters in which cash pooling may operate. Matters such as distribution of profits, liabilities, capital maintenance and liquidity protection requirements must be investigated on a case-by-case basis.

## Taxation

According to the Treasury Alliance Group consultancy, almost all liquidity management structures will need to comply with the following three basic requirements from a tax perspective:

- Arm's-length interest allocation: all financial arrangements between participants should reflect market price.
- Business purpose: the entire structure must have a valid business purpose other than tax avoidance or the circumvention of non-tax regulatory restrictions.
- Economic substance: the participants must have formal, legal responsibilities surrounding their participation in the pool.

Specific tax issues likely to be encountered include interest deductibility, withholding tax, transfer pricing and thin capitalisation rules, business tax and surcharges and stamp duty. Perhaps the most interesting initiative of the moment in terms of physical pooling is the OECD's Base Erosion and Profit Shifting (BEPS). This addresses concerns that the profits of multinationals are being allocated to locations different from those where the actual business takes place in order to reduce their overall tax liability. In response, treasurers should expect to revisit documentation and practices around liquidity, foreign exchange and intercompany financing amongst others.

## Decisions

The suitability of pooling must always be part of a discussion with specialist banking, accounting, taxation and legal partners. Of course, not all banking systems are equal and not all entities within a group have the same needs. A centralised approach to treasury may not even be the best approach to multicurrency liquidity management, especially where complex firms come up against tax inefficiencies and difficult local banking and exchange controls. However pooling is approached, regular review is essential to ensure processes remains fit-for-purpose.





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